INDIA'S PLIGHT

BY

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PREFACE TO THE FIFTH EDITION

GREAT BRITAIN will, before long, be considering the Report of a Joint Committee of both Houses of Parliament on the subject of proposed further constitutional reforms for India. When doing so, the present economic condition of India must not be overlooked. For such political advances as Parliament may think it desirable to make, whatever directions they take, must in any case rest on sound *economic* foundations, or the whole structure —economic as well as political—may collapse.

To-day, the economic situation in India is the reverse of satisfactory. Notwithstanding the great natural wealth of the land, with its magnificent rivers and regular rainfall—notwithstanding the impressive magnitude of the population (some 353,000,000 souls) with their admirable habits of peaceful industry, and the immense volumes of good things which they annually produce—notwithstanding these many and great advantages, an artificial distortion of the people's principal purchasing and measuring tool, as evidenced by an appalling and intolerable shrinkage of prices, has gravely depressed and degraded the whole country; and forced everybody—agriculturalists, industrialists, country people and town workers—in the direction of bankruptcy; and with an accompaniment of large-scale unemployment heartrending to witness.

The pitiful plight of the people is clearly reflected in the earnings of the State Railways, and in the receipts of District Boards, Municipalities, Port Trusts, and other self-governing organisations. All of them are experiencing great difficulty in cutting

down their expenditure to balance with their shrunken receipts. So, consumption of Reserve Funds, and appeals to Government and the public for Loans, are seen on many sides.

Nor are Provincial Governments in any happier position. With agriculturalists' incomes diminished by over £120,000,000 per annum (see p. 9), it is not surprising that Land Revenue, the chief source of Provincial income, has also shrunk to an embarrassing degree; or that all Provincial Governments, especially Bengal, have experienced the greatest difficulty in balancing their Budgets. If the Madras and Punjab Governments have at last made both ends meet, it has been mainly because remissions of Land Revenue to a semi-bankrupt peasantry in those Provinces have not been on a large enough scale to afford the relief that agriculturalists demanded, and considered essential.

The Central Government—the Government of India itself—is in a similarly difficult financial situation. Only by constantly increasing taxation (see p. 12), regardless of the condition of trade, has it been able to maintain its Budget on the traditionally right side. To put the situation in a nutshell, the LESS the unfortunate taxpayers of India have been able to earn, the MORE heavily have they been taxed, till, in some cases, their businesses have ceased; Indians and Europeans have been thrown out of employment; staffs reduced to a minimum; and many current businesses are more dead than alive.

There is little doubt that India's foreign exchange—the over-rated 1*s*. 6*d*. rupee—would have broken down had not large sales and exports of portions of India's accumulated gold savings relieved the situation. Much of this gold has been brought to market owing to the distress of the people. This cannot go on for ever.

In the meantime the value of India's export and

import trade has shrunk to less than a half of what it was ten years ago, and merchants' earnings have dwindled to an even greater extent. To make matters still more difficult, the trade competition of the Far East in India itself, and in overseas markets served by India, has become so severe that defensive tariff legislation is now strongly demanded. In some cases, complete prohibition of imports of cheap foreign-made goods is suggested. In the meantime, Indian and British producers and manufacturers, and exporters of Indian and other nationalities, are all finding themselves face to face with dwindling markets, and are less able than ever to pay the increasing taxes which local, Provincial and Central Governing authorities demand.

In such circumstances it would not be fair to India for the British Government to hand over, or to expect Indians to take charge of, even the smallest Provincial Government whilst Currency and Finance are in their present deplorable condition—the rupee grossly distorted (i.e. prices only one-half what they were a few years ago)—foreign exchange riveted to sterling at an unnatural level (1*s.* 6*d.* instead of 1*s.* 4*d.*)—and taxation screwed up to the highest point, slowly killing trade, and precluding all possibility of raising revenue for improved national services such as sanitation, education, medical developments, social advancement, etc.

Nor, even if these serious ills were suddenly and miraculously remedied, is any political change in India worth having, from an Indian point of view, unless the control of Currency and Finance—as important to individual and national economic health as the purity of the air is to physical well-being—be placed under the direction of Indian brains and hands living and working in India. And by the word "Indian" I mean men of all races, colours, languages and religions, who spend most

of their lives, and earn most of their daily bread, in India.

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Is the position, then, hopeless? Not in the least. India's plight is not the result of any irresistible "Act of God," but rather the consequence of an error of judgment on the part of man—man in the West, to be precise, who, ignoring the facts that Great Britain and India flourished amazingly throughout the greater part of the last century, and that the East is advancing industrially at an astonishing pace to-day, *generally by the unrestricted use of silver as well as gold money*, have now mistakenly endeavoured to discard the use of silver as full legal tender money, and to restrict the whole world, *including India and the silver-using East and Tropics*, to the use of gold money only, and paper money based on gold.

Two results of this mistaken policy leap to the eyes, especially of those who, like myself, reside in the East. The *price* of silver *expressed in gold money* has been artificially depressed; and with it, though to a less extent, the world price levels of all commodities—to the grave loss of all—especially agricultural—producers. But the *value* of silver, *measured in the labour and local products of the East*, has not been adversely affected to anything like a similar extent. So that the peoples of the East, whilst artificially hindered in purchasing the products of the West, have at the same time been powerfully stimulated to produce and manufacture for themselves, to the manifest discomfiture of the West, particularly Lancashire. And, be it remembered, there are quite 1,000,000,000 possible consumers in the East, and in the Tropics!

For most of these hundreds of millions, metallic coins of *silver*, or based on silver, are far more suitable money-tools than the *paper* notes of petty values—a few pence up to a few shillings—which

innocent Western bureaucrats have for years been forcing upon the poorer classes of the tropical and semi-tropical regions of the world. Living, as many of these poor people do, remote from railways and large towns—wearing but few clothes (mostly without pockets)—and working in temperatures that cause profuse perspiration, paper money (which is liable to destruction by fire, rain and flood, ants, beetles, rats and other tropical pests) is quite inappropriate for the masses in the Tropics, as anybody who has had to handle such currency well knows.

At the same time, paper money of higher denominations—say the equivalent of ten shillings and upwards—*based on silver*, is quite a suitable purchasing and measuring tool, and store of value among the better educated and higher placed peoples of the Tropics resident in, or near, large towns.

In these circumstances, would not those who are engaged in building up the British Empire be wise no longer to attempt to restrict the basis of the world's money to one metal only—gold, but rather to make the utmost monetary use of both precious metals—silver as well as gold,—silver which is popular and acceptable in the East and in the Tropics all the world over?—silver which has been used effectively as money throughout the ages since the days of Abraham?

The effect of reopening the world's Mints to the public to the free coinage of full legal tender silver coins is beyond question. History affords several precedents, and all of the same character. The supplementing of the world's present depleted stock of metallic money (three-quarters of the gold in the world is now out of reach of the *peoples of the world*—hoarded, and largely sterilised) by the addition of a good volume of silver money, and paper currency based on silver money, would, by placing more purchasing power in the hands of those who had worked for it, restore gradually, and over a pro-

longed period, the world's price levels of five years ago; and so bring back once more the normal earnings of industry in field and workshop, thus creating confidence, and stimulating enterprise in all directions.

This is a very different thing, it must be added, from the offer by Banks and Finance Houses to "credit-worthy" individuals and concerns of large or numerous loans of bank-money at so much per cent per annum, the whole repayable to lenders in so many months or years. That policy—the only suggestion made by the British Government to relieve the present world economic crisis—has failed miserably. And for very obvious reasons.

A rise of world prices brought about by the re-opening of the Indian Mints (in co-operation with Great Britain and, say, the United States of America, to start with), to the free coinage of silver (rupees are at present unlimited legal tender), would at once relieve India's plight. The silver savings of 353,000,000 of people, which past legislation thoughtlessly and cruelly reduced in value by more than one-half, could at the option of the people be converted into effective Purchasing Tools, and the consuming capacity of those 353,000,000 considerably increased. The rise of world prices would restore prosperity to agriculture, which employs three-quarters of India's huge population. The revenue demands of all Indian Governments, Local Bodies, etc. could be more easily fully met, and Indian taxation be reduced to a reasonable level. Political and social unrest would subside with returning economic prosperity; and the possibility of substantial political reforms be brought within the scope of practical politics.

There is another important consideration. The linking of India's rupee to the British pound sterling (and at unnaturally high rate) places India in the category of the semi-gold standard Western nations

who, to-day, are faced by the economic competition of the cheap-silver-using East. India is already feeling unpleasantly the severity of this competition. Yet it is but a foretaste of what is coming as soon as China is organised to make the utmost use of her great natural and acquired resources—her profuse, cheap, and efficient labour ; her most modern, imported machinery ; and her exceptionally cheap yet efficient money tools. It will be, in effect, as though the Far East, in addition to a high degree of mechanical, manual, and organising efficiency, enjoyed the further advantage of competing in India, and in India's overseas markets, by aid of rupees that cost only *seven* pence ! Can India possibly stand up against such competition ?

Can England face such competition with equanimity ? Let there be no mistake. The great struggle of the immediate future is going to be EAST versus WEST. And in this coming economic rivalry, *which is the root explanation of most present-day political rivalries*, the side which competes by aid of the cheapest and most efficient money-tools—seven-penny rupees and seven-and-six-penny pounds sterling—will enjoy an advantage which India, *and the West*, may find almost irresistible.

M. DE P. WEBB.

WOKING, SURREY.
30*th September*, 1934.

PREFACE TO THE FOURTH EDITION

THE "plight" described in the following pages is not peculiar to India. Great Britain itself is involved; so, also, to a lesser degree are Canada and other parts of the Empire.

The "plight" arises from the fact that, unnoticed by the great majority of the public, our Money *has doubled in value* or purchasing power since the close of the Great War, most of the distortion taking place since 1929.

The effects of this unchecked enlargement of the Public Measure of Value have been deadly in the extreme. In the first place, the weight of all outstanding debts—personal, public, and national—incurred during the latter period of the Great War and in 1919 and 1920, has been *enormously increased.* So much so that there is now little probability that the whole of that indebtedness can ever be repaid.

In the second place, the rapid enlargement of our Public Measure—by quite 100 per cent in the case of primary products—has numbed enterprise, paralysed trade, multiplied unemployment, and reduced many to the verge of bankruptcy. India, three-quarters of whose 353,000,000 are dependent directly or indirectly on agriculture, is in a most pitiable condition. The reason for this is that wages and salaries, rents and taxes, and other fixed charges cannot all be cut down at the same rate, or to the same degree, as prices have fallen. So industrialists (and especially agriculturalists) find that the prices received for their finished products are less than the bare costs of production. Though wages and salaries have been gradually reduced—though many good

workers have been discharged from employment—taxation has nevertheless been continually increased by Government, whilst further falling prices and further diminished demands have greatly disheartened the producing and trading communities, and completely shattered their confidence in the future.

At the moment of writing the policy of State "crop planning" and "State-controlled marketing" (copied from the fantastic expedients now being attempted in England), which in practice can only result in increased costs and reduced production and consumption, is about to be introduced into poor, under-fed and under-clothed India. This Procrustean idea of cutting down production to fit the volume of money, in the hands of the masses, instead of increasing the volume of money in the hands of the masses by greatly reducing taxation and re-opening silver mints so that increasing demand and consumption could balance increasing production, can only lead to further expense and further interference with the liberty of the people, further losses and increased unemployment; till the people through sheer misery and desperation, will be driven to widespread sedition and political revolt.

* * * * *

A momentary appearance of returning economic prosperity has been engineered in Great Britain by

(*a*) the depreciation of the Pound Sterling relative to gold which has, for the time being, facilitated increased British exports;

(*b*) the imposition of import duties which have, for the time being, checked manufactured imports from abroad and so given scope temporarily for more employment in England;

(*c*) the subsidising by the State of certain industries, and the spending of the people's money on Public Works;

(*d*) the death of some of England's wealthiest and most enterprising men, a substantial portion of whose wealth has in consequence been appropriated by the State;

(*e*) the omission to pay over £40,000,000 of War debt instalments due both last and this year to the United States of America.

The British public, whose attention has not been drawn to these most important facts, have been led to believe that they are now on the road to economic recovery. But the *Economist* of 28th April, 1934, tells the truth:

> If we look below the surface, we find no great reason for jubilation. We have to go back many years before the War to find such low figures for British exports as those with which we have become familiar in the present crisis, and *they are still barely half those for the depression year 1922.* The unemployment figures are still well in excess of two millions, without taking account of the unemployed in uninsured occupations, such as agriculture and the "black-coated" professions.

The *Economist* then asks "What plan has Government in mind to lift us out of the rut?" Though experts and committees from the Macmillan Committee of 1931 onwards have told the British Government what is essential, and though the Chancellor of the Exchequer (Mr. Neville Chamberlain) has reechoed that advice more than once (namely that a rise of world-prices MUST be engineered; in other words, that our grossly distorted money MUST be restored to, say, its 1929 measure), Government have taken no action whatever beyond playing with what the *Economist* contemptuously calls the "new economics of scarcity."

Further, does any economist of repute, or any experienced man of business imagine that Great Britain, crushed beneath the greatest burdens of national and local indebtedness ever known, and bled white by far the heaviest taxation in the world (*both of which handicaps have been almost doubled in*

weight by the artificial distortion of the nation's Money-measure), can successfully compete for long against the cheap money and cheap labour of the East ?

* * * * *

The full advantages of a depreciated currency (which depreciation has saved England from collapse), have been deliberately denied to India whose rupee has been rated at 1*s*. 6*d*. instead of the 1*s*. 4*d*. at which figure it stood for nearly twenty years before the War. *India is the only example within the British Empire, or indeed throughout the world, of a country whose currency after the Great War has been deliberately OVER-rated instead of DE-preciated.* The results of this erratic policy have been (*a*) a check to India's exports, (*b*) a severer fall of prices in India than has been experienced in any other part of the British Empire ; and consequently, (*c*) a shrinkage of India's buying power which has inflicted the greatest loss, pain and suffering on the industries of Lancashire and Yorkshire.

* * * * *

There is a perfectly straightforward and practicable way out of the present disaster ; and that is to allow the peoples of India and the Far East, Africa, South America, and the United States to make the utmost possible use of SILVER as MONEY. (Eastern peoples have, for ages, been accustomed to the use of silver money.) Just as a plough is necessary to turn up the soil preparatory to sowing, so a Money-Tool is necessary to permit of the division of labour, and the purchase of such things as its owner or user requires.

The difficulty to-day is that stubbornness, or limited practical experience, in certain high quarters in London forbid the use of any kind of " plough " except that which the Money-Lenders of London are prepared to lend to " credit-worthy " borrowers at 5 (or whatever the rate may be) per cent per annum.

In vain, men of wider practical experience have pointed out that for ages some men have used, *and are still using, wooden ploughs.* In vain realists have reminded the "City" that there are still vast areas of the world that could be ploughed, if not most efficiently, still to great advantage with wooden ploughs, i.e. developed rapidly and satisfactorily by aid of *silver* money tools. The "City" of London has, for the most part, remained unreceptive and immovable to this fact. "Either you arrange to borrow our gold 'ploughs,' through the agency of 'credit-worthy' financial agencies, preferably resident in London; or, we are not prepared to help you with capital for your local developments."

In other words, the rate of development of the world at large must proceed at the pace, and under the conditions which the myopic outlook and day-to-day convenience of the money interests of London may dictate!

Happily for England and the world at large, the force of circumstances was too strong for the "City" to resist; and, on the 19th–21st September, 1931, the Bank of England, fighting tooth and nail to the last moment, was forced off gold—i.e. relieved by Government from its statutory obligation to give gold for export in exchange for its own notes promising to pay "pounds" on demand. This strongly resisted development actually saved Britain's Export Trade from certain decline; and so saved Great Britain itself from approaching disaster.

But the "City"—or most of the "City"—has not yet acknowledged the whole truth, namely, (1) that France and the U.S.A. having locked up nearly three-quarters of the gold in the world, there is no longer enough gold available to satisfy the requirements of the rest of the world; and (2) *that of the rest of the world, probably one half, has always used, and IS STILL USING SILVER AS MONEY.*

Nor has the "City" yet recognised in a practical

and business-like way, the significance of this fact. For the "City" has been quietly striving, having been itself forced off gold, to establish a world-wide PAPER-money-using area wherein local paper currencies would be linked to, if not actually based on, Great Britain's paper currency. The chief advantage of such a scheme is generally represented to be the ability of the Bank of England, in co-operation with other countries' Reserve and Central Banks, to maintain the stability of the *foreign* exchanges.[1] Another reason, not usually announced publicly, is that the scheme would enable the "City" largely to control directly or indirectly the finances —national and private—of all the PAPER-MONEY nations included within the new paper money "Sterlingaria" (as some "City" monetary technicians are pleased to call it).

To consolidate its control more effectively over the new PAPER-MONEY countries, the "City" of London have been scheming to degrade and abolish SILVER altogether as full legal tender money. India has been the first and the most important silver nation to be attacked. With the restoration of the gold standard to England in May 1925 the Hilton-Young Commission was sent to India in August of the same year to tie the rupee up to the restored gold standard at 1*s.* 6*d.*, and to dispose of a large portion of India's silver money.

Both plans turned out to be ghastly blunders. Within seven years of 1925, Great Britain, with her export trade maimed and unemployment figures steadily rising, was once more forced off gold, and became a depreciated paper currency nation.

Within seven years, India too, with her rupee cruelly overrated at 1*s.* 6*d.*—with her export trade diminished (and her buying powers correspondingly

[1] Although most economists are now agreed that stability of the *internal* purchasing and measuring money tool is of greater importance than stability of the foreign exchanges!

reduced)—with the general level of her prices forced down to greater extent than the prices of commodities in any other part of the British Empire—India was also, to all intents and purposes, *forced* off gold, and linked—still at 1*s.* 6*d.*—to London's paper pound "sterling."

But the policy of the "City" of London further to degrade silver as money, and further to circumscribe its use for monetary purposes (all with the object of more surely concentrating money-power—now only paper-money-power—in London), persisted. Clear evidence of the "City's" design on India's good, solid silver rupee can be seen in the Reserve Bank of India Act, drafted in London, and rushed through the Indian Legislature at the beginning of this year, under which India's new Reserve Bank is *not allowed to buy, or sell, or even to hold silver bullion, if it deals in gold.*

The second evidence has been seen in the Government of India's prolonged sales of India's supposed "surplus" silver, in face of all protests. Over 170,000,000 ounces have been sold. And the price level of Indian commodities falling all the time!

The third evidence has been seen in the recent issue by the Government of India of several crores of rupee *paper* currency notes based, *not* on the security of the supposed "surplus" silver (of which the Government of India still hold several millions of ounces), *but on the security of the Government of India's excess cash balances in London which are payable not in silver, or gold, but in "STERLING" PAPER.*

The fourth piece of evidence was seen a few days ago in a letter in the London *Times* of 1st May, 1934, written by a leading partner of one of the chief Silver Brokers in the world. In that letter, Mr. E. L. Franklin says that "there is now only one country where silver is of vital importance, that is China . . . Outside China, beyond what is needed

for subsidiary currencies, *silver is merely a luxury, and its price therefore is not of much importance.*"

Silver—a luxury—in India! The effrontery of such a statement is the measure of either the writer's ignorance, or the value which the writer attaches to public opinion. India, in pre-war days built up a commerce that exceeded in value that of all the over-sea divisions of the British Empire put together. And that was accomplished by aid of SILVER money tools. India, trusting to Britain's inborn sense of fair play and justice, put her poor people's savings, to the extent of many millions of ounces, into SILVER ornaments and SILVER hoards. But the closing of the Indian Mints to silver in 1893 destroyed a large part of the value of those savings. To this day, however, the weight and purity of the silver rupee has been retained; and these good, silver coins (in boxes and bags) are the chief means of making purchases and settling debts among the hundreds of millions of those who live in the *country*, as distinct from those born and raised *in the towns*. Silver money to the value of many millions sterling is in constant circulation in India. On 15th May, 1934, notwithstanding recent sales of "surplus" silver, Government held Rs. 96,10,71,000 (ninety-six crores, ten lakhs, seventy-one thousand rupees, worth about £72,000,000) in rupees and silver bullion in the Currency Department. Yet Mr. E. L. Franklin, of Messrs. Samuel Montagu & Co., tells the world in effect, that silver is not of vital importance in India, but is merely a luxury.[1]

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Enough. The remedy for present economic ills

[1] Sir Henri Deterding at once corrected Mr. Franklin's misstatement in the following words: "The accumulated wealth of British India is mainly composed of silver bars and silver ornaments. Surely, then, it is a matter of vital importance to this great part of the British Empire that her savings of centuries should be allowed to regain something like their original value—about double the price of silver to-day"—*vide The Times* of 4th May, 1934.

is right before us, waiting for us to seize it. India is not going to be forced off silver in order to base its paper currency merely on the paper pounds of London issued and managed by the Bank of England in consultation with the "City" and the British Treasury Officials. India is economically strong and self-contained. And if the British Government shaking itself free from the "City," will assent to an agreement being made between the Government of India and the Government of the United States of America, whereby the reopening of the Mints of both countries to the people to the free and unrestricted coinage of full-legal tender silver money at a ratio to gold to be agreed upon between the two countries, can be undertaken, then the first steps along the road to world prosperity will have been made.

The following telegram was despatched by me from Karachi on the 5th May, 1934, to President Roosevelt, White House, Washington, D.C., U.S.A. :

MOST OF "UNOFFICIAL" INDIA WOULD WELCOME ACTIVE CO-OPERATION WITH THE UNITED STATES OF AMERICA IN RAISING THE LEVEL OF WORLD PRICES AND SO ENCOURAGING AN EARLY RETURN OF WORLD PROSPERITY BY REOPENING TO THE PUBLIC THE INDIAN AND AMERICAN MINTS TO THE FREE COINAGE OF FULL LEGAL TENDER SILVER MONEY AT A RATIO TO BE AGREED UPON BETWEEN THE TWO COUNTRIES.

That telegram conveys the truth. Let us all get together, determined to bring about what the "City" of London, lacking the will, has not yet succeeded in accomplishing.

M. DE P. WEBB.

KARACHI,
INDIA, 30*th May*, 1934.

FOREWORD TO THE THIRD EDITION

THE increased attention now being given to Silver and its possible restoration, all the world over, as unlimited legal-tender money, is clearly reflected in the special "Silver Number" issued by *The Times* on the 20th February, 1934. Every student of the subject, every business man, and every politician and statesman should be in possession of that "Silver Number," and should carefully study the views of the many experts who have contributed thereto.

Convinced, as I am, that only by the full rehabilitation of silver money can we set in motion that certain and long continued rise of prices which alone can save the world from bankruptcy, and civilisation from disaster, I have not hesitated to advocate by pen and by speech and on every possible occasion, in season and out of season, the immediate restoration of the white, precious metal to its age-old position of honour as the co-equal of gold for monetary purposes, especially in the East and the Tropics, where it is to-day quite popular among the millions.

This edition includes, in Appendix H, an answer to the question which is almost daily being addressed to me—"Why Silver?"

M. DE P. WEBB.

KARACHI,
9th April, 1934.

INTRODUCTION

By profitable industry and trade only, can those surpluses be earned which provide

(1) for the upkeep of Government in all its departments —Defence, Justice, Education, Health, Social welfare, etc.; and

(2) for that progress in all branches of human activity usually regarded as the advance of civilisation.

During the last five years the profits of production and industry have steadily dwindled. The trade of the world has continuously shrunk; till, at the present time, it is only three-quarters in *volume* and one-half in *monetary values* of the figures of 1930. "Falling prices, declining production, vanishing trade, accumulating debt, and increasing unemployment have presented an almost unvarying and melancholy progression for the better part of three years."[1]

The Government of India's reaction to this terrible economic decline has been, like that of Mr. Ramsay MacDonald's Government in Great Britain—a helpless acceptance of what has apparently been regarded as an "Act of God." Falling prices, shrinking trade, and diminishing revenue have been met—incredible as it may seem—by

(*a*) The imposition by Government of still heavier taxation; and

(*b*) The general de-gradation of the administration—lower standards of government in several departments—slight cuts in the salaries of superior Civil Servants—heavier cuts and wholesale dismissals in the cases of the inferior grades.

And that too, in face of the obvious facts that to place still heavier tax burdens on failing production and trade,

[1] *Vide The World Economic Survey*, 1932–33, published by the League of Nations. The *Survey* for 1933–34 reveals a slight improvement in the *volume* of the world's trade; but the *value* thereof is still shrinking—five per cent in terms of sterling, ten per cent in terms of gold, in 1934.

and to throw thousands out of employment in the midst of a grave economic crisis, must, of necessity, make the economic situation progressively worse and, in the end, lead to disaster.

The repeated advice of Government in the Legislative Assembly that the best policy for the people of India in the present crises is to wait and see what will turn up, is unworthy of a British Government. Producers, industrialists and traders are gravely dissatisfied. The time has arrived for insisting on something better than a Micawber policy to meet a situation that is clearly threatening widespread disaster.

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A short time ago I visited the island of Rhodes. Our steamer—a fine vessel of the Messageries Maritime Co.—carried its own launch, easily capable of transporting 60 or 70 people ashore. But the local boatmen were anxious to earn a little money. So, for some obscure reason, the authorities agreed to allow the boatmen to carry the passengers—over a 100 souls—and the steamer's launch would tow the local boats ashore.

Some six small boats accordingly came alongside the ship's companion ladder. A heavy ground-swell was running at the time and embarkation was not without its dangers. Will it be believed? Although each boat could not carry more than 15 or 20 passengers at the most, those sight-seeing enthusiasts, including some leading lights of the political, educational, and literary worlds, all laughing and chatting with each other, descended the ship's ladder and—all unobservant—clambered on to the first boat—10, 20, 30, 40 of them, till the boat was on the point of sinking with all aboard!

It was not until a sturdy British man-of-the-sea suddenly roared words of disapproval and warning (in language that would have done credit to the lower-deck of any vessel of the British Navy), at the highly cultured group of passengers squeezed together on the row-boat, that the little band of intellectuals realised their danger. And then half of them

quickly managed to scramble back on to the companion ladder of the steamer, happily without serious accident.

* * * * *

Our position to-day seems to me very like those travellers and sightseers at Rhodes. Although history affords us the clearest and most reliable indications of the economic conditions under which the world has made rapid progress in the past, the Authorities in Power — Great Britain's "National" Government, to be precise—for some obscure reason, have allowed a small but powerful group of financiers to try and carry and control the trade of the whole world by means of their own private monetary contraptions. And with the result that all producers, industrialists, and traders, and everybody else (including Government) whom the men of commerce carry on their backs, are to-day in a position of grave discomfort and danger.

And so, like the man-of-the-sea at Rhodes, I am impelled to shout forcibly to the financial boatmen of the West:

"Hi—you below there—what the hell are you doing? You can't carry the business of the entire universe in your "sterling" paper boat. YOU ARE TOO GREEDY—damn you. Let the other fellows have a chance. Their silver boats are just as good as your paper boat—better, in fact, now that you are off gold. Push off, there! Let the other boats come alongside."

And to the crowd—all unobservant—of world workers—agriculturalists, industrialists, traders, transporters, bankers, and others who depend on them, I am impelled to shout again:

"Look out there—can't you see that you're going down? You'll all be drowned if you're not careful. Get back on to the ladder. That first boat—'Paper Sterling,' can't carry the lot of you. Hurry up. There's one fellow in the sea already—up to his neck in debt—are you going to let him sink? Hi—you—

Boat No. 2—'Solid Silver'—pick that fellow up. That's right—he's quite safe now—you others get into 'Solid Silver.' And the rest—there are other boats coming along—'Gold,' 'Split Gold,' and 'Pure Paper,'—they'll probably carry the rest.

Hi—you—'Paper Sterling'—pull off there—damn you—don't you see YOU'RE BLOCKING THE WAY. . . . That's better. Now I'll send our launch 'Franklin' to tow you all into harbour."

* * * * *

There is no time to lose. India is one of those desperately struggling countries who are in difficulties—right up to her neck. Her rupee—till 1893 a thoroughly good coin—has now become grievously distorted, so much so that it is now a false measure which compels many producers and debtors to hand over to Government and to creditors far more than is fairly due. This injustice must not be allowed to continue; or all—including Government itself—will surely be dragged down to ruin.

The late Alexander del Mar, one-time Director of the U.S.A. Mints, and a great writer and authority on the Science of Money, said:

> Money is perhaps the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power to so distribute the burdens, gratifications and opportunities of life that each individual shall enjoy that share of them to which his merits or good fortune may fairly entitle him: or, contrariwise, to dispense them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time.

This is literally true. Every principle of justice is being violated in India to-day through our distorted rupee. Similar injustices (through distorted money) are being perpetrated in other parts of the British Empire, including Great Britain itself. And with disastrous results.

But this is no reason why India with its immense wealth in materials, in capital, in hands, and in brains, should be forced to go on suffering needlessly. On the contrary, it is

the best possible reason why India should cease "to take it lying down," and should now rise to its feet and fight determinedly for its own economic salvation.

Let us all—Western as well as Eastern monetary reformers—join hands, and try to help in putting matters right.

I. INDIA'S PLIGHT

CIVILISATION is cracking and crumbling before our very eyes. The sources from which it derives support—profitable industry and trade—are rapidly becoming dry. The madness with which the gods are said to afflict those doomed to destruction, seems visible on more than one side. Though mankind continues to multiply—though the earth brings forth in greater abundance than ever—yearly increasing numbers of people (to-day, probably well over thirty millions), are unable to partake of that abundance, and are drifting miserably through unemployment towards disintegration and death.

Western Party Governments, either blind to elementary economic facts, or paralysed by fear of losing office, are attempting to save the situation by checking production, obstructing exchanges, and imposing greater financial burdens and fiscal handicaps on those employers of hands and brains whose efforts yield the surpluses which support both people and Government ! The obvious corollary of this policy of restricted production and diminished trade (involving inevitably smaller surpluses all round), is a policy of reduced population. The check to production in field and factory must be accompanied by a check to production of the numbers of the family. And this must go on till national suicide is complete ; and our present-day civilisation has passed the way of all previous civilisations.

Can any healthy, vigorous people regard such a prospect with equanimity ?

*   *   *   *   *

Why India—a truly vast territory, fruitful in every respect—should be involved in the insanities which have recently overtaken several Western Governments it is difficult to see—difficult, that is, regarded as a matter of

abstract justice. But the fact is beyond question that, partly because of India's subordination (through its Government) to certain powerful interests in Great Britain, and partly because of India's trade connections with the other countries of the world, India cannot avoid infection to a small degree by the erratic actions of foreign nations in international trade matters; and to a large degree by the actions of the Secretary of State for India in fiscal, financial and monetary matters.

INDIA'S EXTERNAL TRADE.

Taking first the subject of India's external trade, some idea of India's present plight may be gathered from the following facts. India's external trade (overseas and by land) has diminished, as measured in rupees, during the last ten years as under (the figures are of merchandise only):

	Exports Goods Crores.*	Imports Goods Crores.	Balance of Trade.† Crores.	Index Nos. Wholesale Prices.
	Rs.	Rs.	Rs.	
1923–24 . .	361	217	+ 144	173 (Decr. 1924)
1924–25 . .	397	242	+ 156	159 (,, 1925)
1925–26 . .	384	224	+ 161	148 (,, 1926)
1926–27 . .	309	229	+ 79	148 (,, 1927)
1927–28 . .	328	246	+ 82	145 (,, 1928)
1928–29 . .	337	251	+ 86	141 (,, 1929)
1929–30 . .	317	238	+ 79	125 (March 1930)
1930–31 . .	225	163	+ 62	100 (,, 1931)
1931–32 . .	160	126	+ 34	94 (,, 1932)
1932–33 . .	135	132	+ 3	82 (,, 1933)
1933–34 . .	149	115	+ 34	88¶ (,, 1934)

* A crore is 10,000,000. † Excluding gold and silver.
¶ Index Numbers in April 1934 were 89; May and June, 90; July, 89.

In studying the above figures, it must be remembered that the rupee is not now a reliable measure of values. The general level of prices has fallen so seriously (in other words, the rupee has so increased in purchasing power) that the fall in the *volume* of trade is not so great as the rupee figures imply. The fall of prices is shown by the last column of

Index Numbers, the figure 100 representing the average level of prices in July 1914. It will be seen that the general level of prices in 1933 is only one half of what it was in 1924. In other words, *the rupee has become so distorted that it will to-day purchase twice as much as it did ten years ago!*

This gross distortion of India's Public Measure of Value may seem quite satisfactory to some—to those for example who are in receipt of fixed wages, salaries, pensions, etc. But the satisfaction will surely evaporate when it is remembered that the change is of the same nature as the falsification of any other measure which would give to a buyer or receiver of goods a larger quantity than that to which he was fairly entitled—two yards of cloth instead of one—two maunds of flour instead of one—two seers of milk instead of one: and so on.

This can, perhaps, be better appreciated if the position of the producing classes be considered. (And production, it must always be remembered, comes before consumption. Producers are obviously the most important section of the community. Their difficulties and needs should rank before all others in the considerations of Government.)

Internal Trade: Agriculture

Consider the case of agriculture, in which over 75 per cent of India's 353,000,000 are directly or indirectly concerned. The gross distortion of the purchasing power of the rupee (described by the Director-General of Commercial Intelligence as "the calamitous decline in commodity prices"—*vide* the *Review of the Trade of India*, 1932–33), compels the agriculturalist to give to the Tax Collector, the local money lender, and other creditors *twice as much of the produce of his fields* as he gave five years ago to meet exactly the same amount of Land Revenue, Interest, and other demands! In many cases this is a physical impossibility. The unfortunate agriculturalist (be he a small landowner or a big landlord), finds himself in a position of extreme difficulty; and in some cases is faced by possible bankruptcy and ruin.

The following extract from the last Government *Review of the Trade of India* speaks for itself:

India is mainly an agricultural country. . . . The great fall in the prices of agricultural goods has affected India's national income, which has shrunk considerably. . . . This is illustrated roughly by the following table in which the main crops of each of the provinces are taken for the agricultural year 1928–29 and for 1931–32, the latest agricultural year. The crops have been valued in most cases by taking the average harvest price for each of the crops in the different provinces. Thus the money which the cultivator gets for his produce (i.e. more or less the real agricultural income, not including transport and other charges), has been taken as far as possible. The following table gives the result:

ESTIMATE OF AGRICULTURAL INCOME IN THE PROVINCES OF INDIA

Provinces.	1928–29 Values in lakhs of Rs.	1931–32 Values in lakhs of Rs.	Change in Values in lakhs of Rs.	Percentage decrease from 1928–9.
Madras	1,80,78	1,01,25	– 79,53	– 44·0
Bombay	1,20,52	66,56	– 53,96	– 44·8
Bengal	2,32,59	1,06,71	– 1,25,88	– 54·1
United Provinces .	1,40,52	92,21	– 48,31	– 34·4
Punjab	76,78	37,49	– 39,29	– 51·2
Burma	63,38	29,20	– 34,18	– 53·9
Bihar and Orissa .	1,35,17	71,05	– 64,12	– 47·4
Central Provinces .	68,77	32,42	– 36,35	– 52·8
Total . .	10,18,51	5,36,89	– 4,81,62	– 47·3

Note—A lakh is 100,000.

Converted into sterling at 1*s.* 6*d.* per rupee, the above figures are as under:

Income in 1928–29	£763,882,500
Income in 1931–32	402,667,500
Loss of Income	£361,215,000

It will be noted that Bengal, Burma, Central Provinces, and the Punjab have each lost in 1931–32 *over a half* of the amount of income that they received in 1928–29! It is estimated that the position was 9 per cent worse in 1932–33.

So far as food crops are concerned, many agriculturalists

consume a substantial portion of what they grow, and to that extent the fall of prices may not affect them. Indeed, in some cases the actual labourers in the fields may be better off. But the prices received for the surplus (out of which fixed charges have to be paid—land revenue, interest, rent, etc.) have been enormously reduced; and, *pro tanto*, the ability to buy manufactured goods. Here is the explanation of most of the shrinkage of India's importations of cotton textiles and other articles from abroad, and of the sales of Indian mill-made goods to India's 265,000,000 peoples of the countryside.

INJUSTICE TO AGRICULTURE

But the wretched agriculturalists' miseries do not end here. So defective and unsound are the Government of India's methods of Currency management and Customs taxation that not only has agricultural gross *income been halved*,* but *expenses have at the same time been increased*! In addition to certain *export* taxes on agricultural products—so preposterously unsound and unfair as to cause the orthodox to blaspheme—Government maintain heavy *import* duties on all manufactured articles *which agriculturalists need and consume*. Of these, the most deplorable are the taxes on foodstuffs like spices, salt, wheat, and sugar (nearly 200 per cent on this last!), and on articles which agriculturalists must, or should, buy such as metals, oils, machinery, motor vehicles, etc. That some agriculturists in India should be reduced almost to despair by such lack of economic perception in high places, is not in the least surprising. Much of the blame for this condition of affairs must be placed on some of the pundits of Whitehall and their advisers, who, it might be expected, would interpose, and prevent the imposition of unsound and noxious taxation in India.

The very serious diminution in agricultural income in India, and the consequent reduction of purchasing power and loss of trade have been reflected in greatly reduced railway earnings and an embarrassing loss of revenue by District Boards, Municipalities, Port Trusts, Provincial

* Net agricultural income has decreased by very much more than a half.

Governments and the Government of India itself. With the result that Government have piled on more and more taxation; whilst Port Trusts, Municipalities and other Local Bodies have adopted a policy of additional taxation; or a consumption of Reserve Funds; or a combination of both. Failing an early recovery of trade, there can be only one ending to these desperate methods of meeting the present crisis; and that is all-round disaster.

The following figures show exactly what sums have been extracted from failing agriculture and vanishing trade during the last ten years:

Years.	Land Revenue (Crores). Rs.	Customs (Crores). Rs.	Income Tax (Crores). Rs.
1923–24 . .	34·9	39·7	18·5
1924–25 . .	35·8	45·7	16·2
1925–26 . .	35·5	47·8	16·0
1926–27 . .	34·9	47·4	16·0
1927–28 . .	35·7	48·2	15·4
1928–29 . .	33·0	49·3	17·0
1929–30 . .	33·5	51·3	17·0
1930–31 . .	30·3	46·8	16·3
1931–32 . .	32·7	46·4	17·5
1932–33 . .	35·7	46·8	17·1
1933–34 (estimate)	35·2	46·9	17·1

It will be seen that although the prices of agricultural produce have *fallen by FIFTY per cent*, Government nevertheless expect to extract from agriculturalists in 1933–34 MORE Land Revenue than in 1923–24!

And although India's import trade has *fallen by nearly 40 per cent* since 1923–24, Government have nevertheless extracted about *17 per cent MORE taxation than before* in the form of Customs duties from that shrunken trade, thus slowly but surely killing the commercial goose that still meekly tries to go on laying the revenue eggs!!

The figures of Income Tax speak for themselves. Notwithstanding every effort to collect more taxation from *income* (in itself a questionable form of taxation: it would be better, so many believe, to tax *expenditure*), this source of Government's revenue is showing signs of continuous shrinking—a very bad omen indeed.

Taxation Killing Trade

A better idea of the killing magnitude of the volume of double-value rupees now being extracted in the form of taxation from the surpluses earned by trade in India, can be gathered from the following illuminating figures (in crores of rupees) of Government revenues:

Years.	Central Government.	Provincial Governments.	Total Taxes Extracted.	Value of Total of Exports.
	Rs.	Rs.	Rs.	Rs.
1923–24 . . .	133	79	212	348
1924–25 . . .	137	81	218	384
1925–26 . . .	138	87	225	374
1926–27 . . .	132	86	218	301
1927–28 . . .	127	93	220	319
1928–29 . . .	129	91	220	330
1929–30 . . .	133	95	228	310
1930–31 . . .	125	83	208	290
1931–32 . . .	122	85	207	145
1932–33 . . .	130	87	217	148
1933–34 (estimate)	119	84	203	149

Although the overseas and land trade of India (recorded in rupees) is *less than a half* of what it was ten years ago, the volume of taxation (recorded in the same rupees) extracted from that trade and those dependent on trade's earnings, is almost *the same as in* 1923–24!

And that, too, notwithstanding repeated screwing up of taxation by Government in every possible way that human ingenuity could devise. On more than one occasion,

Income Tax has been increased;
Super-Taxes have been imposed;
Surcharges on Income Tax introduced;
Excise Duties increased; new Excise duties imposed.
Custom Duties repeatedly increased;
Postage increased;
Stamp Duties increased;
Export Duties (unsound) introduced; etc.

In short, the LESS the long-suffering taxpayers of India have been able to earn, the MORE heavily they been taxed!

Sterling Debt Doubled

A further injustice to India as a whole has arisen in recent years in connection with the payment of India's annual Sterling obligations to Great Britain. These payments continue to be made as before, as though the Monetary Measure by which the obligations are calculated and recorded, were a *stable* measure. This is, unfortunately, very far from fact.

As the official Indian Index Numbers of wholesale prices clearly show, the rupee has been recently distorted to the extent of 100 per cent. In other words, the rupee of to-day purchases, on an average, twice as much of India's products as did the rupee of ten years ago. Inasmuch as India's annual sterling indebtedness is ordinarily liquidated by sales overseas of the surplus of India's output—mainly agricultural produce—it follows that in order to liquidate, say £25,000,000 annually, India to-day is compelled to give twice as much of the products of the " sweat of her brow " as she did ten years ago. This is clearly not equitable.

The fact that the weekly transfers of these remittances are recorded in terms of Money, Government purchasing with rupees collected in the Indian Treasuries, sterling from the Banks and others in India for delivery in London to the Secretary of State for India in Council, does not affect the principle involved, or the facts of the case. The sterling when received in London to-day is nearly twice the purchasing value of the sterling of ten years ago, as the following Index Numbers prove (*wholesale prices* of 1913 = 100) :

	U.K. (Statist).	Calcutta (Official).
1924	164	173
1933	93	87

(Prices have fallen more in India than in England, no doubt emphasised by the fact that the rupee is over-rated at 1*s*. 6*d*.)

Thus, not only do the agriculturalists of India find their taxes, interest liabilities, and other fixed charges doubled, but the burden of direct and indirect taxation on the backs

of the rest of the community has been repeatedly increased during the last three years ; whilst the whole of the State's Debts, including the annual Sterling liability to Great Britain, has, through the gross distortion of the country's public Money-Measure, been approximately doubled !

As an inevitable consequence of this calamity of halved income and increased taxation, practically all progress has come to a standstill. Further developments by Government, by Local Bodies, and by private enterprise are for the time being dammed. Unemployment and misery accumulate, and breakers are in sight in several directions.

Is the Indian Ship of State with all concerned to be allowed to drift helplessly on to the rocks ?

* * * * *

It must here be mentioned that the look-out men (and there are many in every country, expert economists and others), have recently detected what some think to be the turn of the world economic tide. In the second half of 1932, a period of slack water was noticed. By the mid-summer of 1933 definite signs of movement became apparent. In the United States prices commenced to rise ; production in some cases increased ; and there were distinct signs of increased consumption. With the recent devaluation of the dollar (it has been reduced in metallic content by FORTY-ONE per cent !) the rise of certain prices (as measured by the new half-weight " 1934 model " dollar), has continued. At the same time the rise of prices in the U.S.A. has not yet fully responded to the depreciated exchange value of the dollar. The rise has, however, affected some prices in other countries, notably the prices of securities, and of cotton. It has also generated a certain amount of optimism which is all to the good.

At the same time, the statistics of international trade up to the middle of 1934, showed little signs of improvement, though the rate of world-decline is undoubtedly slowing down.

So far, the trade of India has benefited but very little by the rise. And as none of the fundamental causes of the

world depression have yet been removed, we shall be wise to proceed with new enterprises with the utmost caution.

In one direction President Roosevelt has given a lead that India and the rest of the world might well follow with advantage. Indeed, it may prove to be the best road to renewed confidence and restored prosperity. That matter will be dealt with in a later chapter.

P.S.—The Excise Duties, introduced for the first time this year—1934—on the manufacture of Sugar and Matches are very greatly resented in India.

What has happened is this: First, Government have imposed what are now outrageously excessive Import Duties on importations of Sugar and Matches.

These 200 per cent (and more) Import Duties have, quite naturally, stimulated Indian capitalists and manufacturers to erect match factories, and to cultivate sugar cane and erect sugar factories in India.

Now, Government suddenly clap on heavy Excise Duties —over 2 shillings a hundredweight on sugar, and from 1*s*. 6*d*. to 3 shillings per gross of boxes on matches—thus arousing the greatest indignation amongst India's enterprising but unfortunate manufacturers! Whose turn next will it be to be taxed?

II. THE CAUSES OF THE DECLINE

GRANTED that profitable trade (which includes production, and distribution to the ultimate consumer) is the one and only root source from which those surpluses are derived which (*a*) support Government and every non-commercial activity, and (*b*) permit mankind as a whole to advance;

And granted that this "only root source" of human progress has been rapidly failing during the last five years, with results in the shape of unemployment (over thirty millions of workers in America, Europe, and Asia are unable to earn their daily bread), appalling to contemplate;

Granted these basic facts, the question arises—What action should we take to check the present drying up of mankind's resources, and the consequent threatened breakdown of our civilisation?

One thing is quite certain. There is no shortage of living room—actual, or comparative to population—on the surface of the earth. All the habitable land in the world has not been cultivated to the utmost degree, or even yet occupied. Nor is there any shortage of food and drink in the world. On the contrary, there are more than ample supplies of good water and good food of every variety—vegetable and animal. Indeed, so great has been the production of food, thanks to science, machinery, and improved means of transport, that food has recently been destroyed for one reason and another in at least two continents. And, lastly, there is no shortage of any other of the good things that civilised man everywhere needs. On the contrary, complaints of "over-production" have been constantly heard during the last three years: and that, too, notwithstanding that there are so many millions of unfortunate people lacking, not merely the luxuries of life, but the barest necessities—food, clothing and shelter from the elements.

What, then, can be the root cause of the present crisis?

Plenty of everything; and more people than ever eagerly anxious to share in that plenty; yet a world-wide withering of production, of exchanges, and of consumption; and a growing volume of unemployment, misery, and despair! Never before has the world been faced by so alarming a paradox.

* * * * *

Let us recall what some of the acutest and most experienced brains have had to say about the matter.

Various experts in different walks of life have advanced explanations of what, in their several opinions, are the chief, or at any rate the contributory, causes of the present crises.

These explanations may be summarised as under:

(*a*) *The normal progress of the "trade cycle."*—Economists have noticed that during the last hundred years or so, trade has moved forward by a more or less regular series of ups and downs, rises and falls—"booms," and "depressions." Thus, "depressions" (succeeding "booms") occurred in 1825, 1837, 1847, 1856, 1866, 1879, and onwards, at intervals of approximately ten years. Various explanations of these periodic fluctuations have been offered, from those of the late W. Stanley Jevons (who traced them to "sun-spots," which, by influencing the weather of the earth, affected the yield of the world's crops and so produced periods of good and bad trade), to those of Mr. J. A. Hobson (who sees in irregular distribution of profits leading to over-spending and under-consuming, the much sought for explanation), Mr. J. M. Keynes (inadequate control of credit), and Professor von Hayek (disharmony between investment and saving produced by inappropriate fluctuations in the volume of credit).

Whatever the real cause may be (such "trade cycles," by the way, were not noticed till after England had discarded silver, and based its monetary system on one metal only—gold), several professional economists regarded the years 1929–30 as the point at which a normal "trade cycle" had reached its nadir; and prophesied a probable economic recovery soon thereafter.

(*b*) *The mechanisation of agricultural production, and the improvements and advance of machinery in general.*—These developments, it is thought, inevitably displace human labour and greatly facilitate production, thus creating

unemployment on the one hand and over-production on the other. Hence the tendency to world-wide depression.

(c) *The discoveries of science in connection with plant breeding.*—These discoveries have not only improved the *qualities* of plants yielding food, fibres, oil, etc. for man's needs, but have resulted in *considerably increased yields*, thus tending to over-production, falling prices, and depression.

(d) *The Great War of* 1914–18.—This world-wide struggle to check Germany's attempt to dominate the entire globe greatly distorted the normal economic activities of all five Continents. The urgent demands for food, arms, ammunition and war materials for the combatants, checked trade in some directions but greatly stimulated production in other directions ; and led to the cultivation of fields and the erection of workshops and factories far in excess of peace time requirements. The creation of vast volumes of paper money-tools, necessary for war-time needs, considerably lessened the purchasing power of all existing money, and raised prices to nearly three times their pre-War levels. Wages, salaries, and fixed charges rose in consequence. The final defeat of the Central European Powers and the close of the War put many millions of men and women out of employment. Thus, the Great War left the world in a condition of grave economic confusion.

(e) *India Office Aberration.*—As just stated, the reduced purchasing power of the world's greatly increased supply of money at the close of the War showed itself in the doubling and trebling of the prices of everything, including silver. The silver rupee was, in consequence, lifted to approximately 2*s*. 4*d*. (paper), at which rate traders and others thought it time to remit all they could to England. Although the Babington Smith Committee of 1919 had recommended, only a few months previously, that the rupee be fixed at 2*s*. (i.e. ten rupees to the pound), a recommendation which the Government accepted, the India Office, on its own initiative, and not in response to any demand by the public, ordered the Government of India to sell pounds sterling at approximately Rs. 7*s*. per £, i.e. at approximately 2*s*. 10½*d*. This gratuitously favourable rate generated huge speculation, and the demand for sterling remittances became overwhelming. Government, nevertheless and notwithstanding, met this demand as far as they could (at very slowly reduced rates), and in face of almost daily protests from the general public in India, till the Government had lost over £30,000,000 of the Indian taxpayers'

money! Private losses by traders, owing to the rate of exchange falling first from 2*s.* 11*d.* to 2*s.*—the rate at which Government had led the public to believe the rupee would be fixed—and then from 2*s.* down to 1*s.* 3*d.*, were probably much more than £30,000,000. (Some traders in Calcutta and Bombay, where Government effected these extraordinary sales of sterling, of course, made fortunes.) But the confidence of the public was completely shattered, and the way prepared for the subsequent decline. (In an earlier, ruder age, the official responsible for these immense, terrible losses, would have been hanged, drawn, and quartered; or at least, impeached and dismissed from office. Not so in 1920!)

(*f*) *The Brussels Financial Conference.*—In the same year—1920, September—a Conference by experts, mainly financiers and bankers (i.e. money-lenders), was held at Brussels. This Conference agreed that two things were necessary to bring back world prosperity—Universal peace; and the restoration of gold as the basis of the currencies of the world. Peace was no doubt essential. But restoring gold money meant universal currency restriction; and currency restrictions meant a general forcing down of world prices. Dr. Gustav Cassel, the eminent Swedish economist, pointed out that *a policy of forcing down prices,* i.e. *increasing the value of money, would, in most cases, make debtor States* (*and many individual debtors*) *definitely insolvent.* Notwithstanding this prescient warning, the bankers, as usual, had their way. The policy of currency appreciation was adopted by way of high bank rates and a restriction of credit. Public confidence in many directions was thus further shattered, and an economic decline definitely assured.

(*g*) *Austria's Reconstruction in* 1923 *by the League of Nations* was regarded at the time as a triumph for the politicians of the day, and for the bankers *who lent the* (*appreciating*) *money.* The determination to restore England's gold currency created confidence among certain European politicians. London financiers, who were the main source of international loans, were also satisfied. (Was not the gold currency in which the loans had to be repaid, *certain to appreciate*!)

But appreciating currency means falling prices; and a long period of falling prices means paralysis and death to industry. Though optimism prevailed among bankers and politicians for a time, it did not last long. Austria crashed badly in 1931 when the Credit Anstalt of Vienna came to grief, through the general fall of prices.

(*h*) *Great Britain Returns to Gold* (1925).—Notwithstanding that currency restriction meant falling prices, industrial depression, and certain insolvency to some nations and many individuals, and in spite of Dr. Cassel's opinion that " a prolonged period of falling prices and consequent economic depression will never be accepted as a wise device of deliberate economic policy," the Finance Houses and Banks of London nevertheless deliberately adopted that policy. In 1925, Mr. Winston Churchill, then Chancellor of the Exchequer, under the advice of the " City," deliberately restored the gold standard to Great Britain, thus at once handicapping many British producing and exporting interests to the extent of about ten per cent in overseas markets, and forcing down prices still further.

(*i*) *India Returns to the Gold Standard* (1926).—Britain's policy of currency restriction was reproduced in India where, in spite of expert protests, the Government of India accepted the Hilton-Young Commission's recommendation to link the rupee at 1*s.* 6*d.* to the British gold pound, and to sell all (supposed) " surplus " silver for what it would fetch, thus still further depressing rupee prices in India, and the price of silver all over the world.

(*j*) *The U.S.A. Speculative Bubble Bursts.*—Two years before Austria came to grief, the U.S.A. (who had sold vast quantities of food and war material to the Allies during the War, at war prices, and was now the chief war-Creditor of the world) was carried to disaster on the crest of an uncontrollable wave of speculation. The U.S.A. had not been forced off gold by the Great War, but, on the contrary, had greatly benefited financially by the War. U.S.A. banks gave every facility to U.S.A. speculators who recklessly boosted many securities far above their true values as based on the earning capacities of the businesses concerned. With prices falling steadily in Europe, the truth gradually became apparent in the U.S.A., and the inevitable occurred. The speculation bubble burst in 1929. Securities crashed; commodity prices fell close upon 16 per cent between 1929 and 1930. The U.S.A. thus became involved in the world economic crisis. This crash, in range, volume, and far-reaching results, greatly exceeded any previous economic crash known in history.

(*k*) *Impossible War Reparations and Debts.*—With prices falling steeply and with unprecedented rapidity, all debtor nations found themselves in difficulties. Financial panic began to appear in even the most strongly organised countries. Withdrawals of gold from England assumed

such large dimensions, that the Bank of England elected not to attempt to meet them, and so, in September 1931, passed off the gold standard back to the paper sterling currency which it had prematurely rejected in 1926. The British pound at once depreciated *vis à vis* the gold currencies of France, Holland, and the United States. This momentarily checked the catastrophic fall of prices in Great Britain. But prices continued to fall elsewhere. Germany found it impossible to pay War Reparations or Debts; France declined to pay War Interest to the U.S.A.; and Great Britain was reduced to the ignominy of tendering "token" payments (in silver, too!) to the U.S.A. towards War indebtedness.

(*l*) *Defensive Tariffs and Restrictions.*—In a frantic effort to maintain local production, guard against increasing unemployment, and preserve local currencies in spite of falling prices, cut-throat competition facilitated by depreciated exchanges, etc., and heavy external liabilities—war debts and post-war recovery loans, etc.—practically every nation has endeavoured to defend and protect itself by erecting import tariff-walls, creating "quotas," and imposing financial restrictions. All these measures are, in effect, a hindrance to trade. And now, some nations in their despair, are restricting production in the vain hope that they may in this way raise prices and so escape bankruptcy. But in spite of all, world trade continues to shrink, and profits to disappear. Yet Governments have piled on more and more taxation, and expect the producers and traders of the world to recover in some mysterious way under these utterly impossible conditions.

Here are at least twelve possible causes of the present economic catastrophe in India and the rest of the world. Some of these causes may be regarded as almost unavoidable; but most of them are quite clearly the outcome of a lack of human foresight. Whichever cause, or set of causes, we believe to be the chief origin of India's present plight and of the alarming economic condition of the Western world, men of industry and commerce in India and elsewhere have been directly affected chiefly in two ways:

(1) by a long-continued, paralysing fall of prices; and
(2) by a long-continued, deadly shrinkage of trade, i.e. of local and international demands for goods.

Traced to its source, shrinkage of trade is the immediate

result of loss of confidence and enterprise, generated by the last twelve years' fall of prices, itself the offspring of a prolonged policy of currency restriction deliberately adopted at the close of the Great War by the bankers of the West (e.g. the Cunliffe Committee and the Brussels Conference), enforced in India and elsewhere throughout the world, and still adhered to by the financial Powers of London with tragic stubbornness and an almost incredible lack of world-vision.

With world prices more likely to sink further, than to start on a prolonged upward movement, how can confidence be expected to revive? Unlike the Government of President Roosevelt, the Governments of the British Empire are making no visible attempt to correct the terrible distortion of their money-standards, and to restore prices to the levels of ten, or even five years ago; although they have been repeatedly and urgently warned by the highest expert authorities, and in language of the utmost gravity—not by one kind of authority, but by every kind of authority. Here are, for example, the words of three of such experts—Sir Henry Strakosch, Sir Reginald Mant, and M. Albert Janssen (Chairman of the Gold Delegation of the Financial Committee of the League of Nations, and late Belgian Minister of Finance) written in January 1932:

"The continued fall in prices has stimulated protectionist measures and given rise to various devices for controlling the foreign exchanges. All these restraints on the international movement of goods tend to force payment of gold, and thereby to produce further deflationary effects which are only aggravating the evil. It may truly be said that international trade is being gradually strangled to death; if the process continue, millions of people in this economically interlocked world must inevitably die of starvation, and it is indeed doubtful whether our present civilisation can survive." [1]

[1] *Vide* Note of Dissent to the Report of the Gold Delegation of the Financial Committee of the League of Nations, Geneva, June 1932.

Professor Gustav Cassel, the eminent Swedish economist, adds, " With the general view of Sir Reginald Mant, M. Albert Janssen and Sir Henry Strakosch, I am in complete accord."[1]

India is already gravely depressed, economically. And nobody who, like myself, has recently visited the leading cities of India, can doubt that millions are, if not partially starved (as clearly foreseen by the currency experts above), at least terribly under-employed, and tragically under-fed.

Recently, the position in India has been still further worsened by importations of very low-priced goods from the Far East. The low prices are partly the result of cheap labour, using the most modern machinery, and organised to a degree of efficiency not yet attained in India: and partly the result of exchange conditions—depreciated local currency and cheap silver. With the further industrial development of China, now rapidly taking place, the competition of the cheap-silver and depreciated-currency countries of the Far East will become still more severe, not only in India, but in all overseas markets at present served by India, *and by Great Britain.*

What can India do to meet this alarming competition? What will Great Britain do?

[1] *Vide* Note of Dissent to the Report of the Gold Delegation of the Financial Committee of the League of Nations, Geneva, June 1932.

III. PRICES MUST BE RAISED

What is to be done? How can the present situation of fallen prices, shrunken trade, appalling unemployment, and threatening bankruptcy best be mastered and a move in the direction of general prosperity be assured?

There is no difference of opinion anywhere regarding the *first* remedial measure to be undertaken. PRICES MUST BE RAISED—restored to the level of five or six years ago —and there stabilised so far as practicable, if disaster is to be avoided. The Macmillan Committee expressed this opinion most emphatically as far back as June 1931; and it has been re-stated and confirmed repeatedly by experts, politicians, and statesmen. Here are the Macmillan Committee's exact words:

> We are emphatically of the opinion, even if a further fall of prices be avoided, *their stabilisation at approximately the present level would be a serious disaster for all the countries of the world alike; and that the avoidance of such an event should be a prime object of international statesmanship.* (*Vide* para. 267 of Chapter II, Part II, of the Macmillan Committee's Report on Finance and Industry, 23rd June 1931.)

This opinion appears under the heading "THE IMMEDIATE NECESSITY TO RAISE PRICES ABOVE THEIR PRESENT LEVEL"; and this "immediate necessity" is explained in detail in Part II, of Chapter II of the Report. Para. 268 says:

> The losses which are now being incurred by nearly all categories of producers of average efficiency in nearly all countries of the world are an overwhelming proof that the fall of commodity prices has gone far beyond the substantial reduction which might be justified by increases in productive efficiency.

A later paragraph reads:

> Our objective should be, first of all, TO RAISE PRICES A LONG WAY ABOVE THE PRESENT LEVEL, and then

maintain them at the level thus reached with as much stability as can be managed. (Macmillan Report, para. 275.)

This was the opinion in 1931 of experienced British brains of the calibre of Lord Macmillan, Mr. Walton Newbold, Mr. A. A. G. Tullock; of traders of the standing of Sir Thomas Allen, Sir Walter Raine, Mr. Ernest Bevin, Mr. J. Frater Taylor; of bankers of the eminence of the Right Hon. Reginald McKenna, the Hon. R. H. Brand, and Mr. Cecil Lubbock; and of two world-famed economists—Mr. J. M. Keynes and Professor T. E. Gregory, all of whom were members of the Macmillan Committee of 1929–31. (Lord Bradbury alone dissented.)

The Gold Delegation of the Financial Committee of the League of Nations held much the same view. In January 1932, three members of the Delegation—M. Albert Janssen (President), Sir Reginald Mant and Sir Henry Strakosch—most strongly urged that steps should be taken to restore world prices "to a suitable level, and to maintain them stable at that level," a recommendation with which Professor Gustav Cassel concurred, as already stated. The whole Committee in June 1932 recommended that "a rise of prices was desirable" (para. 176 of the Report).

It is perhaps hardly necessary to recall the fact that these same views have been officially expressed by the British Government and by India's Representatives at the Ottawa Conference of 1932; by the Chancellor of the Exchequer (Mr. Neville Chamberlain) at the World Economic Conference, 1932; by the Finance Member of the Viceroy of India's Council (Sir George Schuster) in 1933; and by many experts in many countries without a single dissenting voice of authority.

Yet nothing has been done, either in India or in England, beyond the emission of an occasional appeal by Mr. Neville Chamberlain to the Bankers of England to "co-operate" in giving more credit to trade and industry than before, and on easier terms than hitherto. Needless to say, these appeals have produced no effect whatever in Great Britain, or elsewhere. Bankers can only lend to credit-worthy people, and such people are the very last persons to need assistance at

the present time. And so, unemployment—of materials, labour, and capital—increases; and the general situation deteriorates.

In India, even less has been done by Government than in Great Britain to help the public in their present troubles. The British Government's policy of endeavouring to raise prices by way of increased business built on cheap loans borrowed from indigenous financiers, is so obviously futile, and carries in itself so many sources of trouble that the Government of India have apparently considered it wiser to keep silent with regard to this line of policy; and have contented themselves with counselling patience, in the hope that something will turn up sooner or later; as it undoubtedly will; but not of the kind which either Government or the public will welcome.

* * * * *

PRICES MUST BE RAISED—that is the first slogan to keep in mind. There are many—*not* those engaged in productive industry, it need hardly be said!—who are unable to see the reason for this. It is necessary therefore to introduce a little theory, and a little recent history.

One of the functions of money is to act as measure, or common denominator of values. And like all other measures, it should be as stable as human ingenuity can make it, or great injustices will be done. Just as would occur if dishonest persons could secretly change from time to time the dimension of the gallon, or the yard, or the pound weight without the public being aware of the fact.

The stability of money is ordinarily tested by calculating its purchasing power in relation to a large number of commodities. One commodity would not do. Thus, if the price of rice falls, it is not possible to say with any certainty whether the cause is an abundance of rice, or a shortage of money. But if the prices of 50 or 100 commodities all fall *at the same time*, it follows that the cause is undoubtedly a shortage of money being used for purchasing commodities, relative to the volume of commodities being offered for sale.

Every country now prepares Index Numbers of Wholesale Prices. The prices of, say, 50 representative commodities

are each represented by the figure 100 at the same date. Fluctuations of price, up or down, are worked out in percentages for each commodity; and the whole combined in one Index Number which then reflects approximately changes in the purchasing and measuring functions of money. In the case of India, the prices in Calcutta of 72 commodities at the end of July 1914 are each represented by the figure 100. Combining the whole into one total, 7,200, and dividing it by 72, the Calcutta Index Number of the wholesale prices of 72 commodities at the end of July 1914 has been taken as 100.

Some idea of the *reduced* purchasing power of India's rupee (brought about by the enormously increased supply of rupees and other money manufactured in order to purchase the urgent requirements of the Allies in the Great War of 1914–18), can be gathered from the fact that by the end of 1918, India's Index Number had risen to 176. In other words, prices in India, on the whole, were roughly $1\frac{3}{8}$ times what they were in July 1914. By the end of 1919, the Index Number was 196; rupee prices had almost doubled! The climax was reached in 1920 when the Index Number for the year was 202: prices had more than doubled! The rupee had lost more than one-half of its purchasing power, and Government and private employers were in consequence compelled to raise wages and salaries, and to give special Grain Allowances, War Allowances, etc., or many of India's millions would have starved.

It is of the utmost importance to understand what has happened to the rupee since the year 1920—how its purchasing power has been *increased*; in other words, how rupee prices in India have *fallen*.

Here are the official Index Numbers:

Year.	Index Number.	Year.	Index Number.
1920	202	1927	148
1921	179	1928	145
1922	176	1929	141
1923	172	1930	116
1924	173	1931	96
1925	159	1932	91
1926	148	1933	87

The general level of prices has not only fallen to the pre-War level (July 1914), *it is now about 13 per cent below pre-War level.*

India's "public measure of value" (as many economists call a country's chief purchasing instrument), has not only NOT remained stable, it shrank, by 1920, to *one-half* of its pre-War value; then expanded, by 1930–31, to its former value (of 1914); and, during the last three or four years, has further increased by over 10 per cent in purchasing power! These frequent distortions of India's public monetary measure have resulted in the most terrible hardships; and at the present time, in a blighting of enterprise and paralysis of trade that, unless remedied, will surely, in the end, destroy our present civilisation.

The reasons for this are by no means obscure. Whole chains of contracts, written or implied, link together the activities of the peoples of all civilised countries at the present day. And those contracts are all expressed in terms of money—money to be paid for services, goods, or rights that have been, or are going to be, rendered, delivered, or transferred. Any distortions in the value of the money in terms of which these contracts have been made must, of necessity, involve an injustice to one side or the other—to buyer, or to seller.

Suppose, for example, that money *shrinks* in value, as it did during the Great War and until the year 1920. Then all fixed wage and salary earners, all investors in Government securities, all pensioners and annuitants, and, for a short time, many receivers of dividends and interest on commercial undertakings, suffer; because owing to the rise in the general level of prices, and the increased cost of living, receivers of fixed incomes cannot buy as much as before with those incomes, and must therefore endure hardships. On the other hand, all agriculturalists, industrialists, and other producers will reap unexpected profits, because, by the time that their products are grown, or manufactured, and brought to market, they will obtain higher prices for them than they had originally calculated for, and expected. These unexpected profits will stimulate enterprise and

encourage further production. More labour and brains will be employed. Greater dividends will be paid; and general prosperity will advance.

Now let us suppose that the monetary distortion is in the opposite direction—that the purchasing power of money *increases*—that the general level of prices *falls*, as it has been actually doing since the year 1920. In this case all fixed wage and salary earners, and all fixed income receivers gain; because, owing to the fall of prices, and the reduced cost of living, they are all able to obtain more satisfaction, material and other, than they had originally expected. At the same time, all agriculturalists, industrialists, and producers are checked, numbed, paralysed; because, no matter what care they exercise, when the time comes to sell the produce of their fields, and the output of their works and factories, the prices realised are less than they expected and calculated for. Indeed, the prices obtained may leave a loss. If money continues to increase rapidly in purchasing power—i.e. if prices continue to fall steeply, then enterprise withers, credit evaporates, and business comes to a standstill. But few producers will incur further risk and court ruin. Many fixed wage and salary earners find their pay cut; and, in some cases, their employment lost altogether. Indeed, a situation of economic crisis develops exactly like that in the midst of which India finds itself to-day.

Assuming for a moment that the maintenance of approximate monetary stability is beyond the power of any monarch and any government (which, of course, is not the case), then which is the less noxious—an expansion or a shrinkage of the money standard? Is it better in the national interests—in the interest of the great mass of the people—that the general level of prices should rise, or fall?

There is no difference of opinion among monetary experts, or, indeed, among any group of people engaged in the practical work of building up a country's wealth, with regard to the answer to this question. If it be quite impossible to maintain any approach to stability in the country's Monetary Standard, then it is undoubtedly better that prices generally should *rise* rather than fall. For

whilst a movement in either direction involves a certain degree of injustice to certain groups, a rise of prices stimulates energy and enterprise, whereas a fall of prices numbs energy and paralyses enterprise. And as production precedes consumption, and as successful private enterprise is the taproot of all progress, it is beyond question better that encouragement and stimulus be given to energy and enterprise rather than that these vitally important qualities be chilled and deadened.

One other matter remains to be explained. There are to-day some who, remembering the dictum of John Stuart Mill that "if the whole money in circulation was doubled prices would be doubled," and that "this increased (monetary) value would do no good to anyone,"[1] still believe that raising prices by legalising the use of more money, would do nobody any good at the present day. Such people seem to argue that even if prices have fallen, what does it matter? If a man's income has partly (or wholly) disappeared, his expenses have gone down as well; and, contrariwise, if prices and income were now both raised, everybody would be in much the same position as before! The answer to this is that this *might* be so, IF there were no chains of contracts in existence, written and implied, which keep wages, salaries, rents, and other fixed charges at the same monetary figure whether prices fall or not. The position to-day is that most prices have fallen by approximately 50 per cent during the last five years, with the result that fixed charges and debts have, in effect, been doubled, confidence destroyed, and enterprise killed, whilst agriculture and many industries have been brought to the neighbourhood of bankruptcy. Local Bodies, Provincial Governments and the Government of India are all in the same position. Their debts have been doubled, and have now, in fact, become impossible of payment unless the swollen money in terms of which the debts are now expressed, be restored to its purchasing power of, say, five years ago.

The reason why the time "five years ago" is named instead of three years ago when the general level of prices

[1] *Principles of Political Economy*, Book III, Chapter VIII

in India was approximately the same as in the pre-War year 1914, is that during the Great War and the years immediately following the close of the War, wages, salaries, rents, and other fixed charges were all scaled *upwards* to compensate for the increased cost of living, thus permanently increasing the monetary costs of production; and it has been found impossible to cut those fixed charges down to counterbalance the increased value of money during the last twelve years, for the reason that the great mass of the people regard such a cut as de-grading their status, and lowering their standard of living.[1]

Thus it comes about that all authorities have agreed that PRICES MUST BE RAISED; and most producers, industrialists, economists, and leading statesmen have agreed that the earliest possible restoration of the price level of 1928 or 1929 should be "the prime object of international statesmanship."

*   *   *   *   *

The next point to consider is—What is the best method of engineering this essential rise of prices?

[1] E.g. The great coal strike in England in 1926 arose from the desire of coal-mine owners to reduce wages to permit of coal prices being lowered so as to compete in continental markets after England had permanently returned to the gold standard.

IV. THE FIRST STEP

FIRSTLY, what *is* " price " ?

Price is simply value expressed in terms of money.

Individual prices rise and fall ordinarily, according to the well-known law of supply and demand.

Demand is *effective* desire; that is, desire expressed and enforced by aid of money, or a promise of money, e.g. a cheque.

Individual prices *rise* when the demands of buyers are, for the time being, greater than the supplies of goods can satisfy: (which may arise from an excess of money, or a shortage of goods, or a combination of both causes).

Individual prices *fall* when the supplies of goods are, for the moment, greater than the demands of buyers: (which may arise from an excess of goods, or a shortage of money, or a combination of both.)

*   *   *   *   *

The same general principle applies to goods as a whole, and to money as a whole. Thus when we see, *vide* page 27, that the prices of 72 representative Indian commodities taken as a whole, have been steadily falling for the last thirteen years—40 per cent since 1928, and 57 per cent since 1920—then we know that, either India has been producing and offering for sale over a period of thirteen years far more good things than the peoples of India and the rest of the world have demanded;

Or, for the last thirteen years, there has been a chronic shortage of money to spend in the hands of the peoples of India, and of those other peoples overseas, who, ordinarily, are India's best customers;

Or, a combination of both causes has been at work, unnoticed, unchecked, and unattended to by the Governments whom the peoples of India and of the West support

to safeguard their interests, protect their possessions and assist their progress.

* * * * *

First with regard to the production of good things. India is mainly an agricultural country. Here are the estimated yields of the chief crops since 1921–22:

	1921–22	1923–24	1925–26	1927–28	1929–30	1930–31
	(In millions of tons.)					
Rice	33·1	28·2	30·7	28·2	31·1	32·2
Wheat	9·8	9·6	8·7	7·8	10·5	9·3
Raw Sugar	2·6	3·3	3·0	3·3	2·8	3·2
Rape and Mustard Seed	1·2	1·1	·9	·8	1·1	1·0
Ground-nuts	1·0	1·1	2·0	2·7	2·7	3·1
	(In millions of acres.)					
Total Area, Food Grains	204·8	197·0	196·1	196·7	200·0	202·7
	(In millions of bales of 400 lb.)					
Cotton	6·0	6·0	6·5	5·7	7·0	6·7
Jute	4·0	8·4	8·9	10·1	10·3	11·2
	(In millions of lb.)					
Tea	274·3	375·3	363·5	390·9	432·8	391·0
Coffee	20·5	19·1	22·1	35·6	39·4	33·0
Rubber	9·0	14·5	20·0	26·0	28·0	24·3

There is very little in the above figures to indicate that India, for the last thirteen years, has produced far more of the good things of the earth than the peoples of India and the rest of the world have desired, or demanded. Population in India increases at the rate of nearly 1 per cent per annum, so that in thirteen years a normal *increase* of roughly 10 per cent in demand, or at least, in desires may be expected.

The above figures reveal marked increases in the production of coffee, ground-nuts, jute, rubber, and tea. An examination of the Index Number for 1933 shows that whereas the General Index Number for 72 commodities stood at 87, the Index Numbers for "Oil Seeds" (which include ground-nuts), and Jute stood at 73 and 41 respectively, clearly indicating that special circumstances unconnected with the money factor had excessively depressed the prices of those particular commodities. No doubt, expansion of production was one of the contributory causes.[1]

[1] The great increase in the production of tea, coffee, and rubber since 1921–22 has no doubt helped to depress the prices of those commodities below the general depression Index Number of 87. Private agreements

But, on the whole there is nothing in the increased volume of Indian agricultural production during the last thirteen years, to warrant, taking the growth of population into consideration, a fall of 57, or even 40 per cent in the general level of prices in India during the last few years.

The same conclusion can be drawn with regard to manufactures. The jute mills of Bengal, etc., and the cotton mills of the Bombay Presidency, etc., are India's chief manufacturing industries. The output of these mills can be appraised from the following figures:

	JUTE. Bales (400 lb. each.) Raw jute consumed.	COTTON (millions of lb.).	
		Yarn, Spun.	Piece-goods, Woven.
1921–22	4,358,000	693	403
1922–23	4,747,000	704	405
1923–24	5,148,000	617	401
1924–25	5,676,000	719	458
1925–26	5,497,000	686	465
1926–27	5,527,000	806	538
1927–28	5,794,000	808	567
1928–29	6,047,000	647	445
1929–30	6,424,000	832	562
1930–31	4,564,000	866	590

No over-production of a magnitude that would depress prices by 40 or 50 per cent or more, can be detected in the above figures. We are forced to the conclusion, then, that the recent calamitous fall of prices in India is due not so much to over-production by India, as to a chronic shortage of effective demand, i.e. of money in the hands of the peoples, in, and outside India, who, in the ordinary course of events would purchase a large portion of India's production.

*   *   *   *   *

India's monetary policy, as all in India know, is controlled

among the interests concerned to restrict production, and regulate sales, in the interests of producers, make the Index Numbers of the prices of tea, coffee, and rubber unreliable for comparative purposes in measuring changes in the value of money.

and directed *not* by the Government of India (much less by the peoples of India), but by the Secretary of State for India in London, speaking for the British Parliament, influenced and controlled by Financial Powers behind the scenes in London whose policy but few people know, or understand.

If then, we desire to investigate the possibility (or, as it will now appear to most, the probability) of India's unhealthily swollen rupee being one of the contributory causes of the present economic crisis in India, we must look to London for the root explanation of the present cancer that is killing industry and trade.

It is not necessary to go farther back than 1914—the year in which Germany launched its attack on France. Both aggressors and defenders and their respective Allies issued large volumes of paper money to enable them to purchase readily the immense quantities of military stores, transport, and ammunition required for the War. (Great Britain issued over £400,000,000 paper pounds, "Treasury Notes," in addition to imposing heavy war taxation, and borrowing appalling sums—over £7,000,000,000—in war loans.) The consequence was to diminish the value, or purchasing power, of *all* money in the world—gold and silver, as well as paper. Prices rose everywhere—102 per cent in India, and nearly 200 per cent in Great Britain. In consequence, wages, salaries, and many other fixed charges also rose considerably.

It was not in any way surprising that, as the Central European aggressors were gradually forced back in 1918, and the Great War began to show signs of an end, the British Government, anxious with regard to the condition of the British currency, appointed in 1918 a Committee of Bankers "to consider the various problems which will arise in connection with currency, and the foreign exchanges, during the period of reconstruction, and report upon the steps required to bring about the restoration of normal conditions in due course." The Committee (of 14 persons) included one economist—Professor Pigou—and two Treasury Officials.

Again, it was in no way surprising that Government selected a group of bankers rather than merchants or

economists to advise them how to return to "normal" conditions in currency matters. The history, theory, and practice of money had always been excluded from the schools, colleges, and universities of the well-to-do in Great Britain (probably because the record is so bad, according to the present-day standards, that it would not bear examination!); with the result that most living politicians and statesmen know next to nothing about the subject. So they are inclined to regard that mysterious individual, their banker, as the sole repository of wisdom in monetary matters. Or, if not the sole repository, certainly the most influential and powerful: for nearly all are indebted to him. (The present British Government have to-day nearly £900,000,000 of IOU's out in the bazaar in London—the most objectionable and disgraceful feature of current British Government finance. What independence of judgment can be expected from men encircled by £1,000 millions of short-term indebtedness, to say nothing of close upon £8,000,000,000 of National Debt held very largely by bankers, and other moneyed interests in the "City"?)

So the 1918 Committee of Bankers (of which Lord Cunliffe, G.B.E., Governor of the Bank of England, was chairman) made exactly those recommendations which anybody of experience would expect bankers to make. Nearly every Government, every business concern, and every private individual was indebted, to a greater or lesser extent, to his banker. Nearly every country in the world was indebted, in a larger or smaller degree to the financiers, bankers, and peoples of the United Kingdom. All these debts were recorded in terms of money. And money, through immense war issues of paper currency, had shrunk in purchasing power to less than one-half of what it possessed before the War. More than half of its value had vanished. And the bankers and all other creditors stood to lose one-half of what they considered was due to them!

So the Cunliffe Committee naturally urged that Money should be restored, so far as its value or purchasing power was concerned, by getting back as quickly as possible to an "effective gold standard." (In other words, that prices

should be forced down "without delay" to pre-War levels by restricting the supplies of money.) Government should repay their debts to the banks as soon as possible. (Naturally!) Government should reduce and withdraw its issues of paper money (Treasury Notes), and allow the Bank of England to issue in their place such notes as the public required. (An excellent idea from the point of view of Chairman Cunliffe, Governor of the Bank of England!) All policies of "reconstruction" such as Prime Minister Lloyd George in a moment of sentimental exuberance had promised to the people, should be put aside because they would need supplies of new credit, and such credit would interfere with the early "restoration of the gold standard."

This bankers' committee of 1918–19, headed by the then Governor of the Bank of England, seemed to have had no adequate understanding of the deadly effects of a rapid restriction of the currency—of a sharp and steep fall in the general level of prices—which would not only add gravely to the weight of all debts, national and private, incurred during the Great War, but would also chill public optimism, check enterprise and paralyse productive activity. Some experts not connected with the banking business, and not obsessed by the gold monomania with which so many London financial interests are affected, experienced, and expressed, serious misgivings.[1] But the Cunliffe Committee's Report was adopted by Government, and acted upon during the following years when Mr. Stanley Baldwin was Prime Minister.

In September 1920 a Financial Conference was held in Brussels at which experts from all parts of the world appeared. The financial position of every nation of importance was considered. Eventually it was unanimously agreed to recommend to the statesmen of all countries that two matters were positively essential to enable confidence and prosperity to return to the world, namely Universal

[1] In particular Mr. Aurther Kitson, whose excellent and forceful Note on the Cunliffe Committee's recommendations has been republished in his *The Bankers' Conspiracy*, Elliot Stock, 16 Paternoster Row, E.C.

Peace (regarding which there can be no possible difference of opinion), and

. . . the re-introduction of "sound" money on a gold basis, necessitating general currency deflation or restriction.

Here we have another example of the gold mentality of the West which seems unable to conceive of any way of equalising the growing economic and social needs of the world, with the restricted quantity of "sound money on a gold basis" available through the banks, other than by the fantastic, Procrustean method of cutting down production and commerce to fit the quantity of money which the bankers are able to supply!

On this occasion grave warnings were issued by Dr. Gustav Cassel, one of the world's greatest economists, that a policy of forcing down prices and thus increasing the purchasing power of money would (*a*) probably make many States definitely insolvent, and (*b*) everywhere check progress and create economic depression. "Such a policy would never be accepted in Europe or elsewhere as a wise one." Nevertheless, Western bankers and Governments *did* accept the recommendations of the Brussels Conference. High bank rates and restrictions of credits were adopted to check the rising cost of living, and force down prices, to pre-War levels if possible.

This policy reached a climax in England in 1925, when, following the Cunliffe Committee's recommendations, the then Chancellor of the Exchequer (Mr. Winston Churchill) restored the gold standard, and London once again became a free market to and from which gold could be despatched without legislative hindrance. The immediate result of this further forcing down of prices, and consequent effort to reduce wages, was the great British coal strike of 1926, by which many millions sterling worth of good coal export business was lost to Great Britain.[1]

It is not to be expected that whilst the City of London and the British Government had adopted the policy of Back-

[1] See footnote on p. 31.

to-Gold (notwithstanding the restriction of currency and depression of prices involved), that the Secretary of State for India and the Government of India would be able to escape the infection. Although a long-continued fall of prices in a great agricultural country like India would be a great disaster to all concerned, the Government of India, under the orders of "London," pushed ahead with the new Back-to-Gold-*cum*-Currency-Restriction policy. "What's good for the West must be good for the East," argued the pundits of Whitehall; so the Hilton-Young Commission sat in 1929 in order to link the rupee to the sovereign at 1*s.* 6*d.*, and to do away with as much silver money as possible. In vain eminent witnesses warned the Commission that such a policy would greatly lower the gold-price (not the *value, vis-à-vis* commodities, be it noted) of silver, and so affect British interests in the silver money using East very prejudicially. Their advice was ignored. The Hilton-Young Commission recommended, *inter alia*, that India's paper currency should cease to be convertible by law into silver rupees, but should be convertible into gold: and that Government's holding of rupees (in the Paper Currency Reserve) should be reduced by Rs. 60,00,00,000 (£45,000,000). These recommendations were accepted; and the Government of India have actually sold since 1927 over 170,000,000 ounces of demonetised Indian silver as under:

1927	9,200,000 fine ounces.
1928	22,500,000 ,, ,,
1929	35,000,000 ,, ,,
1930	29,500,000 ,, ,,
1931	35,000,000 ,, ,,
1932	24,000,000 ,, ,,
1933	—

valued at approximately Rs. 14,00,00,000 or, at 1*s.* 6*d.*, £12,700,000. The effects of these sales, as clearly foreseen in 1926, has been greatly to depress the gold-price of silver.

* * * * *

It is now possible to form some opinion whether the disastrous 40 to 50 per cent fall of rupee prices that has taken place in India during the last thirteen years, is caused mainly

by (*a*) thirteen years' excessive over-production in India, or (*b*) thirteen years' shortage of money in the hands of the peoples who ordinarily buy India's products.

Official figures prove that, with the exception of perhaps Jute and Oilseeds, there has been no over-production—certainly no over-production to an extent that would produce a fall in the general level of prices in the last few years of well over 50 per cent.

On the other hand, recent history tells us that there has been a deliberate and long-continued effort to restrict artificially the volume of currency and credit in circulation. This effort was made first by a Committee of Bankers in London in 1918–19; confirmed by a Financial Conference in Brussels in 1920; put into complete operation in England in 1925; extended to India in 1926; and put into operation in India from 1927.

It is impossible, therefore, to resist the conclusion that, whatever other direct and indirect causes may have been at work, *vide* pages 17 to 21, the calamitous fall of prices in India of the years 1921 to 1933 has been the result of insufficiency of money in the hands of possible buyers in and outside of India, rather than of an excessive production in India of the various products of field and factory which the peoples of India and other parts of the world ordinarily require.

* * * * *

Fortified by this knowledge, we now know the direction in which we must move to win renewed prosperity. We must first take steps to put an end to any further artificial restriction of India's metallic currency.[1] And next we must take steps to enlarge India's currency by arranging for the people to be able to earn and use more monetary purchasing tools.

[1] The losses already incurred by the Government of India on their sales of supposed "excess" silver currency are so enormous that Government appear reluctant to publish the figures.

V. GOVERNMENT'S DEADLY POLICY

How to open the Government of India's eyes to the deadly consequences of their present Currency Restriction policy, that is the question.

This policy, as we have seen, had its origin in the Bankers' Committee's recommendations of 1918–19; was repeated by subsequent Committees and Conferences; and finally put into definite shape, so far as India was concerned, by the recommendations of the Hilton-Young Commission of 1925–26. That Commission was appointed "to examine and report on the Indian exchange and currency system and practice, to consider whether any modifications are desirable in the interests of India, and to make recommendations."

But it was the popular belief at the time that the Commission had been appointed to fix the sterling-rupee exchange at 1*s.* 6*d.* (at which figure the Government of India had artificially maintained the rupee for several months previously by their weekly purchases of sterling at approximately that rate), and to link the rupee more closely to Great Britain's recently restored sovereign.

It is impossible to re-study the Hilton-Young Commission's Report of 1926 in the light of present-day knowledge (May 1934) without the many omissions and misapprehensions on which the Commission's conclusions were based, leaping to the mind.

In the first place the vital importance of STABILITY in the purchasing and measuring functions of India's money-tools, in the interests of the millions of India who earn their living by aid of these tools, was entirely ignored by the Commission. Their minds seem to have been pre-concentrated on the necessity, so it appeared to them, of stabilising the rupee at 1*s.* 6*d.* gold, rather than stabilising its purchasing power in relation to the commodities which

India's 300,000,000 rural and urban workers spend their lives in producing and consuming.

Secondly, the immense value and importance of silver as a precious metal from which the money of the East had been manufactured since the dawn of history, was completely submerged by their pre-concentration on the desirability, as it seemed to them, of establishing a gold monetary standard in India; and of linking such currency—paper and silver tokens—as *they* considered Indians might be permitted to use, to the gold standard money of Great Britain and the West.

And so, they even went so far as to recommend that India's paper currency should cease to be convertible by law into silver coin (though a certain amount of silver coin would always be available); but should be "directly convertible into gold for all purposes," which gold, however, "should not circulate as money"!

The rupee having been artificially maintained *by Government* in the neighbourhood of 1s. 6*d*. sterling, for over a year, the Commission elected to regard this figure of 1s. 6*d*. as the *de facto* rate; and, considering that price levels in India and Great Britain and elsewhere had finally adjusted themselves to this rate, the Commission recommended that the rupee be stabilised in relation to the sovereign 1s. 6*d*. per rupee, Sir Purshotamdas Thakurdas alone dissenting.

And, to close further discussion, the Commission added (para. 173): "*There is not in our opinion any event in the foreseeable future which would be likely to make conditions more favourable for the purpose of stabilisation than they are at present!*"

Finally, to clinch matters, the Commission devoted a large part of their Report—84 paragraphs—to a description of a proposed Reserve Bank of India which they recommended should control the new 1s. 6*d*. gold standard currency, issue India's paper money of the future, buy and sell gold (there is no mention of silver!), and generally manage India's finances, public and private. The Commission suggested a Shareholders' Bank, but specially drew attention to the necessity of safeguarding the affairs of the Bank from

falling into the control of any particular group, or section, of the various trading and political interests in India.

* * * * *

Such, very briefly, were the recommendations of the Hilton-Young Commission. It is doubtful if any Royal Commission has ever made a Report revealing graver omissions, drawing more incorrect conclusions, or making recommendations that subsequent events have proved to be so wrong and noxious to India's welfare, as those of the Hilton-Young Commission.

By deliberately recommending the closer linking of the rupee to gold (at a ratio disadvantageous to India), and the more rapid discarding of India's age-old silver currency, the Commission emphasised and made worse the 1918–19 blunders of the "Back-to-Gold" bankers of the West, and so forced India into an economic depression deeper than that with which any other country within the British Empire has been afflicted.

Thus, the confirmation of Government's previous decision to link the rupee to the sovereign at 1*s.* 6*d.*, accompanied, as it was, by a recommendation further to demonetise India's silver currency, and to create a Reserve Bank (*a*) to control the new restricted gold-standard rupee and (*b*) manage the Government of India's finances, were all immediately accepted and acted upon. And with what disastrous results! The subsequent calamity developed as under:

(*a*) The rupee was "stabilised" with regard to the gold pound, and also the paper pound; but was rendered *unstable beyond all precedent* with regard to everything that India's hundreds of millions want to sell and buy. Between 1927 and 1930 the rupee was distorted in purchasing power in India by over 20 per cent, and by the end of 1933, by 41 per cent to the misery and ruin of millions. In other words, the general level of prices has fallen as indicated by the following Index Numbers:

1928	145	1931	96
1929	141	1932	91
1930	116	1933	87

Trade has withered: profits have declined or vanished: and unemployment has increased to a heartrending degree.

(*b*) Of the sum of Rs. 60 crores (£45,000,000) by which amount the Commission recommended that India's silver currency should be restricted, about Rs. 14 crores (£10,500,000) have already been taken out of the Currency Reserve, melted down, and exported. It may be thought by some that as this metal was lying in the reserve unused, it was just as well to sell it outside India to help, perhaps, towards paying India's sterling liabilities. Unorthodox onlookers, however, will ask why Government could not have reduced the present crushing taxation in India by this amount and used the money towards meeting Government's expenditure *in India*. This procedure coupled with the resultant £10,500,000 left in the taxpayers' pockets for purchasing goods *in India*, might have lessened to some extent the calamitous fall of rupee prices. If this insane currency-restricting, silver-selling policy be resumed, it will certainly hasten the arrival of the impending calamity.

(*c*) Though the Commission, when recommending the formation of a shareholders' Reserve Bank of India to manage the Government of India's finances and the new gold standard currency, specially drew attention to the necessity of safeguarding the affairs of the bank from falling into the control of any particular group or groups of traders or politicians in India, the Commission uttered no word of warning against the financial and currency affairs of the Bank falling into the control of the financial officials of the India Office, and of the Money Powers of London behind those officials, which has happened more than once in the past, to the distinct loss of the peoples of India.

The Reserve Bank Bill was rushed through the Indian Legislative Assembly, and the Council of State between September 1933 and February 1934 and became law on the

16th February, 1934. As matters now stand, the new Bank Act further degrades India's perfectly good silver rupee, and binds India's monetary standard and currency more closely than before to the broken-down gold standard of the West, and to the will of those moneylenders in London whose one-metal obsession and grasping shortsightedness have already caused such widespread ruin.

Objections in the Indian Legislature to the Reserve Bank Bill were confined mainly to the status of the Bank (a Shareholders' Bank rather than a State Bank); to the appointment of the first Directors and Chairman (by Government instead of by the Shareholders); and to the rate at which the new Bank should work the foreign exchanges (1s. 6*d*. instead of 1s. 4*d*.). The deliberate exclusion of silver, and of the coinage of Indian silver money, from the scope of the Bank's operations, passed without adverse comment.

It must not be thought that the Hilton-Young Commission's Report which riveted on to India the Gold-*cum*-Monetary-Restriction policy of the London banking and finance powers, was made without protest. At the time the Commission sat, more than one responsible expert authority gave the Commission what subsequent events have proved to be thoroughly sound advice. Thus the East India Section of the *London Chamber of Commerce*

(1) strongly counselled deferring the stabilisation of the rupee to sterling till India had passed through at least one year of bad harvests;

(2) opposed the placing of the India Currency on a gold basis: the Committee was of the opinion that "the present time" (1925) was *not* an opportune time in which to introduce a gold currency in India.

Mr. E. L. Price, C.I.E., O.B.E., a very experienced Exchange Expert and distinguished Economist of Western India, gave evidence that

(1) he did *not* think "the present time" (1925) appropriate for laying down any new Currency Law for India. He thought it was "still necessary to wait, and watch events";

(2) stability in *internal* prices is more important than (sterling) Exchange for the great mass of the peoples of India.

Sir Montagu de P. Webb, C.I.E., C.B.E., merchant, financier, currency expert, with over thirty years' experience of Indian monetary problems, and author of *Britain's Dilemma*, the publication of which in London in 1912 caused the immediate appointment of a Royal Commission on Indian Currency and Finance—the Chamberlain Commission,—submitted a Note dated 12th January, 1926, to the Hilton-Young Commission in which he expressed the opinion

(1) that the time was " certainly not " ripe for stabilising the rupee with the sovereign or the pound sterling because of (*a*) the uncertainty regarding the future of gold ; (*b*) the uncertainty regarding the future of the European exchanges ; (*c*) the uncertainty as to Great Britain's ability to maintain parity between the sovereign and the pound sterling ;

(2) that the stability of internal prices in India was of greater importance in the interest of India as a whole than stability of the foreign exchanges.

It is a strange fact that none of the above expert opinions are reproduced, or even referred to in the Report of the Hilton-Young Commission !

But the chief protest was made by one of the members of the Hilton-Young Commission—Sir Purshotamdas Thakurdas—in the form of a most valuable Minute of Dissent. In this Minute, Sir Purshotamdas showed that the sterling-exchange value of the rupee was based (taking a balance of trade in favour of India for granted), merely on the policy of Government : that this policy was not defined in any Notification or legislation, or subject to any statutory regulation or control, but could only be implied from the doings of Government : that these doings were frequently in direct variance from the policy laid down in 1893 (Herschell Committee) and 1899 (Fowler Committee), and accepted by Government ; that the 1*s.* 6*d.* sterling exchange which his fellow members of the Hilton-Young Commission

regarded as the *de facto* ratio in July 1926 was, in fact, an artificial rate attained by a deliberate manipulation of the currency between 1924 and 1926 with the special object of getting and keeping sterling exchange at that figure: that so far from prices, wages, etc. having adjusted themselves to 1*s*. 6*d*., the exact opposite was the case: that should gold-money prices fall still further, as seemed more than probable, Indian prices would suffer an even more serious fall if exchange were fixed at 1*s*. 6*d*. rather than the old 1*s*. 4*d*. (at which rate Government could have fixed exchange in 1924, but deliberately neglected to do so): that in such a contingency the Indian producer would be hit to an extent beyond his capacity to bear; "in short, four-fifths of the population that exist on agriculture would be hit very hard." For these reasons Sir Purshotamdas Thakurdas urged that the rupee be stabilised at 1*s*. 4*d*., the rate which had obtained for nearly twenty years.

Subsequent events have proved completely that, in these particular matters, Sir Purshotamdas Thakurdas was quite right, and the other members of the Hilton-Young Commission were entirely wrong.

But Government accepted the recommendations of the majority; and, notwithstanding the facts—obvious to all for the last three years—that the Hilton-Young Commission's recommendations were bad, and were doing grave injury to India—notwithstanding that India's producers, as Sir Purshotamdas had foreseen, "had been hit beyond their capacity to bear"—notwithstanding that the whole country is now clearly sinking before Government's very eyes—the British Government are still pushing on with their "Currency-Restriction *cum* Back-to-Sterling-PAPER-if-we cannot-have-Gold" policy with the persistence of a Government demented! And the Government of India are obliged to do the same!

And so, not only the people but local bodies, Municipalities, Port Trusts, Provincial Governments, and the Government of India itself, are all in the direst financial straits!

What is to be done? Is the policy of Crushing Tax-

ation and all-round De-gradation to be continued till the clock of Indian progress has been put back fifty years or more?

Or what?

VI. SOME CORRECTIVE PROPOSALS

At any rate, there is no longer any doubt as to where we are; and why.

Be the first and secondary causes of the present catastrophe what they may, the widespread loss of confidence and shrinkage of trade are directly caused by FALLING PRICES. And falling prices are the direct consequence of the policy of MONETARY RESTRICTION initiated in London in 1918–19; and extended from London, through the agency of the bankers, to all parts of the British Empire, and of the world.

Moreover, the disastrous consequences of this policy of monetary restriction with its inevitable accompaniment of falling prices, were clearly foreseen at the time by several monetary experts who put their misgivings and warnings into writing.[1] But those warnings were ignored by the politicians of the day. Or, to put the matter more accurately perhaps, the politicians were told that they could not be allowed to interfere with the policy of High Finance in restoring the purchasing power of money to pre-war strength (by raising the Bank Rate, restricting credits, calling in loans, etc., thus initiating the downward movement of prices which developed later into an avalanche, and forced over twenty European and American countries partially to suspend payments).

[1] E.g.—" To forcibly contract the currency, as suggested by the Committee (the Cunliffe Committee) will check production, destroy confidence, render reconstruction undertakings difficult if not impossible and probably lead the way to very serious social and political disorder. That way madness lies!"—Mr. Arthur Kitson's *A Criticism of the First Interim Report of the Committee on Currency and Foreign Exchanges*, 1919, republished in *The Banker's Conspiracy*, Elliot Stock, 16 Paternoster Row, E.C.

" A prolonged period of falling prices and consequent economic depression will never be accepted as a wise device of deliberate economic policy."—Dr. Gustav Cassel in 1920 on the recommendations of the Brussels Financial Conference of 1920.

The tremendous power of High Finance (always hidden from the sight of the people, and exercised with the utmost secrecy) may be gathered from the fact that Mr. Lloyd George, by far the most popular and powerful political leader in the world at the end of 1918, was compelled to abandon all his great schemes of reconstruction—of making old England into a "land fit for heroes to live in"—owing to the silent, secret veto of the Financial Powers behind the political scene. The influence of those Powers is plainly visible to-day in

(1) The Cunliffe Committee of 1918 which consisted of practically all bankers. They made recommendations entirely in their own interests; and they wholly misjudged the ultimate consequences of their actions, which have been disastrous.

(2) The Brussels Financial Conference of 1920 who were much the same; and did much the same.

(3) The Financial Committee of the League of Nations which exhibits the same defects, though in a less degree.

(4) The Bank of England which always co-operates closely with the British Treasury, and which encouraged the premature return of Great Britain to the gold standard in 1925 (at the expense of British exporters, followed by a ruinous coal strike); only to be forced off gold a few years later.

(5) The Hilton-Young Commission's recommendations of 1926, to scrap, in effect, India's thoroughly good and efficient silver currency, and substitute a "gold standard" monetary system that would inevitably be controlled from London.

(6) The chain of Reserve Banks now being established throughout the British Empire. The Reserve Bank of India Act foreshadows the scrapping of India's good silver currency, notwithstanding the fact that Great Britain no longer has a gold standard to which to bind it. So India's solid silver rupee is now linked, *at a ratio unfair to India*, to Britain's so-called "sterling" (but in reality PAPER) monetary

system, the value of which in the future is a matter of considerable uncertainty. No greater currency wrong than this has been perpetrated on India by the Money Powers of London since the Indian Mints were closed in 1893 to the free coinage of silver and the Indian people deprived of a large portion of their savings.

(7) The partial ruin of the great sugar industry of Java owing to Holland declining to de-rate its gold monetary system.

*   *   *   *   *

A very important matter in connection with High Finance's disastrous policy of Currency Restriction, and India's enmeshment therein, is the fact that, in the general breakdown of confidence and shrinkage of trade following the collapse of prices initiated in 1920, the United States and France have been accumulating gold, till, at the present day (22 September, 1934), these two nations hold approximately £2,000 millions in gold (France £1,100 ; U.S.A. £900 millions) out of the £2,500 millions of monetary gold available in the world to-day. In other words, four-fifths of the available gold in the world is out of action so far as the British Empire and the rest of the world are concerned.

*   *   *   *   *

In view of the fact that India, China and the rest of Asia, together with the peoples of the Tropics, and many peoples of semi-tropical lands on both sides of the Equator all around the globe—in short, one-half of the population of the world —are *already using money made of silver and are quite contented with that money*, what are we to think of the mental equipment and outlook of the "high" financial authorities of the West who, with four-fifths of the available gold in the world out of action, now deliberately legislate against the silver money at present in use in India, with the special object of linking India and the rest of the world with a PAPER monetary system in Great Britain which High Finance (and nobody else) will control—*if it can!*

*   *   *   *   *

Let it not be supposed that the Government of India are in any way responsible for the terrible plight in which India has now been placed. The Government of India, in accordance with the spirit of Great Britain's national game, invariably play for the side on which they find themselves.

It is now common knowledge that, in the days before the Indian Cotton Excise Duties were removed, the people of India and the nascent cotton-mill industry of India had no stouter or more persistent protagonists than the Government of India.

So, too, at the time of the closing of the Indian Mints to the free coinage of rupees, the interests of the Indian peoples were stoutly defended by the then Finance Member of the Government of India—Sir David Barbour—who was himself a keen bimetallist and believer in the very great value of silver and silver money as a means of developing India.

Again, when the Financial Powers behind the scenes in London persistently endeavoured to prevent India from importing such gold as she wanted, it was the Government of India who fought strongly for building up the Gold Standard Reserve, and who repeatedly and persistently protested against the interception of gold shipments to India by sales by the Secretary of State of rupees at below the current market rate.

So, too, in 1920, when the Government gave away (no other words can better describe the transactions) millions after millions of pounds sterling at ridiculously cheap rates, involving fabulous losses to the Government of India, the financial brains of the India Office were the culprits, not the Government of India.

And though the Government of India have been carrying out the policy recommended by the Hilton-Young Commission, and accepted in 1926 by the Secretary of State for India, it is very doubtful if the Government of India to-day believe in the soundness of that policy. Indeed, it would cause me no surprise to learn that the Government of India had pleaded for de-rating the rupee to 1*s.* 4*d.*; for stopping all further sales of India's silver; and for entering into

negotiations with the U.S.A. for re-opening the Mints to the unrestricted, free coinage of silver !

* * * * *

In the meantime, the position is this :—The present-day Money-Powers of London and the West—all-powerful, but one-eyed, short-sighted, and grasping beyond belief—have built up their monetary strength by loans to anybody and everybody all the world over, such loans being always repayable in *gold standard money*.

The progress of the Great War involved the creation of vast volumes of credit and paper-money purchasing tools which, in the circumstances, so lowered the value or purchasing power of *all* money, including gold money, that, when the War ended, money had lost half its value (or purchasing power).

As the lenders, largely financiers and bankers, of Great Britain were £7,000,000,000 richer (in War Loan scrip) than before the War commenced, they should have been content with these enormous gains, even though the Pound Sterling had lost a half, or more, of its value.

Instead of which, being unbelievably grasping, they resolved to force the pound sterling back to its pre-War value or purchasing power, thus almost doubling the value of the £7,000,000,000 of British National War Loan Scrip, much of which they held ; and, incidentally, doubling the weight of that and of all other debts, national and private, resting on the backs of the taxpayers.

But as the process of forcing down prices destroys confidence, checks production (especially where wages and fixed charges have been adjusted to the higher level of prices), and sows the seeds of diminished trade and bankruptcy, High Finance has overreached itself, and hastened the development of a world-wide disaster.

Still one-eyed and short-sighted, High Finance is now struggling desperately to prevent world-power from slipping from its grasp. Gold having been forcibly withdrawn from its control, it has so far prevented the Western World and much of the Eastern World from enlarging its use of the

one obvious supplementary money-metal—Silver—that prices have been forced down further and further, confidence has been everywhere still more shattered, and many—individuals, businesses, local bodies, and Governments—are to-day on the brink of the abyss.

Western High Finance is now engaged in a world-wide effort to enthrone "Sterling" Paper Money as the ideal Monetary Instrument for the time being, to which India and the Empire and the rest of the world should kow-tow. Unashamedly, it has, through the Reserve Bank of India Act, further de-graded India's solid silver rupee, and endeavoured to make India's good metallic monetary system subservient to PAPER STERLING, the exact value of which a year hence no Currency Expert in the world can determine.

But the crowning impudence of this colossal bluff is that the issue, management and supreme control of this new PAPER STERLING will be in the hands of the very same secret Money Powers of London and the West who are largely responsible for the present crisis! In short, Western High Finance, if the plan succeeds, will rule the whole world in the future exactly as it has done in the past, but with considerably more risk to all concerned.

* * * * *

Is India going to accept lying down this attempt at financial dominance from the West in every detail of its daily life? Listen to what President Roosevelt said on this subject in his first Presidential Address:

"We cannot allow our economic life to be controlled by that small group of men whose chief outlook upon the social welfare is tinctured by the fact that they can make huge profits from the lending of money and the marketing of securities."

* * * * *

India's leaders must be up and doing to protect India's interests. No more playing at Parliament in the Legislature at New Delhi. The time is short. Here are a few suggestions for consideration. In the Legislative Assembly,

resolutions should be tabled as soon as possible recommending Government

(1) To reduce substantially the present burdens of taxation which are so heavy that not only are diminishing returns visible under several revenue heads, but production and industry are crushed beyond endurance, and any further increase of commerce is impossible.

(2) To recommend Provincial Governments to reduce Land Revenue all round which, at present price-levels, is more than agriculture can bear. Current remissions of Land Revenue are not sufficient to meet the case. In many parts, agricultural interests are perishing.

(3) To cut down Expenditure by reducing the rupee remittances for "Home Charges." The Secretary of State for India to be informed that Money, both in India and England, having greatly increased in value (purchasing power) during the last five years, this increase in the value of money should be counter-balanced by a cut of 25 to 30 per cent in the nominal number of pounds remitted to London.

(4) To issue at once a Notification that India always has been, and proposes to continue to be, a silver-money-using country, and intends to make the utmost possible use of silver as legal tender money.

(5) To de-rate the rupee to 1*s*. 4*d*. pending conclusion of negotiations with the U.S.A. for re-opening Mints to the free coinage of silver.

(6) To ask the Secretary of State for India to communicate with President Roosevelt with the object of negotiating (*a*) the re-opening of the Mints to the free coinage of silver in both countries; and (*b*) the ratio to gold at which both countries would be prepared to accept silver and gold money in unlimited quantities in settlement of all debts.

The Currency League of India might very well enlarge the scope of its activities and take an active part in this

campaign to prevent the subjection of India to the control of the Gold-sterling-Paper Money Forces of London.

India and the East, and the British Colonial Empire all equipped with currencies based on full value silver money coined at Government Mints, would, in the present world economic crisis, be a source of strength to Great Britain rather than, as at present, struggling members of a great family drifting towards bankruptcy and breakdown.

* * * * *

I will here conclude by repeating in ordinary language the remarks made to the boatmen and passengers at Rhodes (*vide* pages 3 and 4):

"Gentlemen—Financiers and Bankers of the City of London—What exactly is your present monetary policy? You appear to be attempting to carry the production and industry, trade and transport of the whole universe to prosperity by aid of money based on one precious metal only—gold; and now that gold has failed you (and world prosperity is still not yet in sight), by aid of your own paper money. In short, you appear to seek to create, in effect, a monopoly in the supply of the world's money, controlled solely by your good selves.

But is this not very risky? Are you not attempting too much? So long as quite one half of the population of the world are using silver (and have been doing so since the beginning of history),—so long as that kind of money is popular, thoroughly suitable in tropical climates, and quite effective among the peoples of the tropics, semi-tropics, India, China and Japan,—and so long as this precious metal is so much cheaper than gold, *thus facilitating very cheap production*,—would it not be wiser, in your own interests, to make the utmost monetary use of this age-old and still popular metal, thus encouraging greater production, distribution, *and consumption*, reducing the risk of carrying all the world's monetary eggs in one basket, and, in this way, restoring world prosperity."

APPENDICES

A TOUR AROUND INDIA

APPENDIX A

KARACHI.—"*Nothing to Steal!*"

The Buyers and Shippers Chamber Building, Karachi, was filled on 1st December, 1933, on the occasion of a Public Meeting summoned to form a Karachi Branch of the Currency League of India.

Mr. Jamshed Nusserwanjee moved that Sir Montagu Webb be invited to take the Chair.

Mr. Jamshed Nusserwanjee moved that:

"This public meeting of the Citizens of Karachi hereby resolves to form a Karachi Branch of the Currency League of India."

Mr. Jamshed Nusserwanjee said that the economic condition of India was very deplorable owing to the terrible fall of prices. It was essential that the problem should be closely studied so that India might have a currency and currency policy that would ensure the maximum prosperity and happiness for the masses.

Mr. Durgdas B. Advani, in seconding the motion, deplored the lack of voice in India's economic affairs. Although Government had repeatedly assured them that they now enjoyed economic independence, the people's voice was not heard by Government in currency matters.

Mr. Sunderdas Dharamsi, Vice-President of the Indian Merchants' Association, in supporting the motion, said (in Hindi) that it would be difficult to raise prices without de-rating the rupee. With a 1*s*. 6*d*. rupee it would be difficult to find a market for the increased production of raw material from the Sukkur Barrage Lands.

Mr. B. T. Thakur, Agent Central Bank of India Ltd., traced the whole of to-day's troubles to the fall of prices of the last five years. It was not only a question of ratio. Money was a measure; and the measure had been changed greatly in recent years. What they wanted was to restore their measure. By de-rating the rupee (as practically all other countries had done with their currencies, including the U.S.A.), they could make the rupee cheaper in other currencies and so raise prices in India.

Sir Montagu Webb, after emphasising the vital importance of

Money in human affairs, and the urgent necessity of devoting close study to the subject in these days of grave economic depression, continued:

By means of money, the division of labour, which is the first step in human progress, has been able to be developed to a degree that would have been quite impossible without the aid of this invention; thus enabling our present civilisation to be evolved from conditions of primitive savagery and barbarism. Money may therefore be regarded as an essential part of the mechanism of our daily life to-day, *without the proper functioning of which, civilisation itself must crack and break down.*

It is of vital importance, therefore, that all should understand what the proper functions of money actually are, so that any defect or failure in the operation of those functions can at once be rectified.

Value of Money

And in this connection we may well recall the wise words of the late Alexander del Mar, at one time Master of the Mints of the United States of America, and a very great writer on the history and development of the world's monetary systems.

"Money," wrote Alexander del Mar, "is the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power so to distribute the burdens, gratifications and opportunities of life that each individual shall enjoy that share of them to which his merits and good fortune may fairly entitle him; or, contrariwise, to dispense them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time."

Public Measure of Value

I do not propose to indulge now in a lengthy disquisition regarding the beginnings of money. I shall not ask you to peer into the distant past when our remote ancestor, with perhaps a spare wife to get rid of, was searching for a fellow savage with too many sheep but insufficient marital engagements. Those early days of barter appear to me to give us no better clue to the phenomena of modern money power than the contemplation of Watt and his tea-kettle does to the mysteries of a modern locomotive. I shall to-day only confirm what Mr. Thakur has just told us, namely, that among three or four other functions, money is to-day, as it always has been, our great Public Measure of Value; and that it is because Government have allowed this one of their Public Measures to become grossly distorted that

a large part of our troubles of to-day are directly due? If the rupee measured the same quantity of grain, and cotton, and oil-seeds, and hides and skins, etc. as it did five years ago, then many of our difficulties would disappear (applause).

The motion was carried with enthusiasm.

Extract from speech by Sir Montagu Webb at the close of a public meeting at the Buyers and Shippers Chamber Building on 6th December, 1933.

" It is of great importance to make a close and continuous study of the Index Numbers of prices in India and other countries. These revealed what he, the speaker, called a gross distortion —a wicked, unjust and indefensible distortion—in the purchasing power of the rupee the coining of which was a Government monopoly, and for which Government must therefore be held entirely responsible. Commodities had not fallen: *the rupee had been artificially increased in value thus placing the necessaries and good things of the world, which existed in abundance, out of the reach of many of the people.* And the situation was daily becoming worse. Crushing taxation was gradually killing trade, and ruining everybody connected with it."

Truth in a Police Report

Regarding recent exports of gold he had that day read a review of the Police Administration in the Punjab that threw an illuminating light on the subject. There was a marked decrease in robberies, the Inspector-General of Police reported, in the year under review. That was good—and very gratifying to all concerned—at first glance. But a little lower down appeared the following words:

" Cash and ornaments are not now so likely to be discovered in the houses of ordinary villagers as they were before the great slump of 1931 caused a drain on their monetary resources; and, in consequence there has been a comparative lack of inducement to the professional housebreaker." (*Loud laughter.*)

The fall of prices and collapse of trade having reduced the villager to abject poverty, there is now nothing for robbers to steal!

" Gentlemen, I beg you to study the currency problem, and we shall soon be able to put matters right."—*Daily Gazette*, 7th December, 1933.

APPENDIX B

DELHI.—" *Silver Further Degraded* "

Extracts from a speech by Sir Montagu Webb at a public meeting at St. Stephen's College Hall, Delhi, on the 12th December, 1933, *under the auspices of the Currency League of India.*

Sir Montagu Webb approved generally of the idea of a central Reserve Bank for India; but the Reserve Bank of India Bill then before the Legislative Assembly exhibited certain very serious defects.

" To begin with, the Reserve Bank of India Bill proposes following the Bank of England pattern, wholly to ignore the existence of silver as a money-metal; and that too, notwithstanding the fact that, in the case of India, silver is the natural money of the country, as well as of all Asia, and most of Africa. It is even proposed by the Government of India that India's Reserve Bank shall not be allowed to buy or sell silver if it elects to trade in gold (clause 17, sub-clause 11 (*a*)). But the public will not forget that as a direct consequence of the gold monometallism of the Bank of England, that Bank has had to suspend cash payments on no less than five occasions, the last time being in September 1931, amidst conditions of widespread economic crisis. There are good reasons for concluding that this British attempt to restrict the monetary operations of the whole world to a one-metal standard is the root explanation of most of the economic crises of the last and of this century. And yet the Reserve Bank of India is now asked to repeat this monometallic blunder.

" Another objectionable feature is the provision in the Bill (Clauses 40 and 41) to compel the Bank to buy and sell British paper sterling *in unlimited quantities*, at approximately 1*s.* 6*d.* per rupee—a rate that is 12½ per cent. above the normal that was maintained for practically twenty years before the conclusion of the Great War. The Bank of England is not compelled by law to maintain Great Britain's foreign exchanges at any particular level—natural or otherwise.

" In my opinion 1*s.* 6*d.* is all wrong. I urge that 1*s.* 6*d.* be deleted and the Clauses so amended as to read that the Reserve Bank shall buy and sell sterling at the legal rate of the day when the Reserve Bank of India Act comes into force."

Extract from an Address delivered at a private meeting of Europeans in Delhi on the 16th December, 1933.

Sir Montagu said that he did not propose to go into any details with regard to the many possible explanations of the present economic depression—the trade cycle; the improvements in machinery; the successful breeding of better and more prolific types of grain, seeds, cotton, etc., all-round overproduction; the destruction and subversive consequences of the Great War; the mal-distribution of gold, etc., as business men, they had encountered the depression in the form of an unparalleled fall of prices, and an unprecedented diminution of demand.

Mr. Runciman's recent description in the House of Commons of the plight of British shipping was very striking. He attributed the disaster to purely economic causes—the shrinkage of world trade. But he did not explain *why* it was that, with the world producing more and more, and populations everywhere growing in numbers, the world's trade as a whole was nevertheless steadily shrinking. Clearly, something was very wrong, somewhere.

Many experts had studied the problem and all were unanimous—e.g. the Macmillan Committee, Mr. Ramsay MacDonald and President Roosevelt, the Ottawa Conference, and the World Economic Conference, that a considerable rise of prices was urgently necessary. But no Government or statesman had effectively done anything to raise prices except President Roosevelt. And his efforts to raise prices and hasten recovery were causing much anxiety, not to say alarm, among orthodox economists in all countries.

There were two ways of raising prices—by restricting production (with a consequent diminution of employment), and by increasing demand by way of the volume of money in the hands of the great mass of the people, that is by increasing the people's ability to earn and spend more money. The former policy, although cruel and inhuman, and involving the degradation of everything and everybody, was being enforced by Government, and by many employers. The latter policy—more money to balance the production of more goods and increased populations—was the only sound policy and therefore should immediately be put into operation.

The problem before them was how best to do it. The course proposed by the financial and banking communities, and officially accepted by Government, was a liberal distribution of Cheap Credit. That was strongly urged in America and Europe three years ago; and was still being recommended by the Chancellor

of the Exchequer.[1] The people needed more money: the Banks would lend it to them—for a time—on very easy terms. This policy had completely failed, in America, in England, in India, and everywhere. Sir Montagu urged that the only sure remedy was to re-open the world's mints to the free and unlimited coinage of silver, for long the hand-to-hand money of half the population of the world.

And here it was that the Reserve Bank of India Bill came in. On the whole he approved and welcomed this Bill. But it had, in his eyes at least, two serious defects. It completely ignored silver, although India was a silver-money using country. And it accepted and continued an unjust and indefensible ratio of 1*s*. 6*d*.

With regard to the omission to recognise the fact that India was a silver-money country, he considered that all wrong. He protested most strongly; but would not reject the Bill on that account.

With regard to the 1*s*. 6*d*. ratio, he considered this, also, quite wrong. But here, also, he would not reject the Bill on this account. He would oppose the 1*s*. 6*d*. ratio to the utmost of his power because it tended to depress unduly the rupee prices of India's exports and so to check trade. He had suggested the Bill should be modified so that the Bank should be compelled to buy and sell sterling up to a limited amount. But, looking to the recommendations of the Joint Committee on Indian Constitutional Reform of 15th August last (which he noticed were signed by Sir Cowasjee Jehangir and Mr. H. P. Mody), he would not be surprised if Government rejected this suggestion. Still, the Joint Committee had specially noted that in recommending that 1*s*. 6*d*. be put in the Bill this recommendation "did not imply any expression of opinion on the merits or demerits of 1*s*. 6*d*."; and they urged that the whole question be reviewed.

Sir Montagu suggested that those who thought the 1*s*. 6*d*. ratio wrong, should protest as strongly as possible, as a gesture, to indicate to Government what their feelings were.

One of the functions of the Bank would be to maintain as far as possible the stability of the general level of prices *within* India, and the stability of the rupee-sterling exchange for trade *outside* India. All expert economists agreed that the former was the more important for India. No special provision was made in the Bill for exercising this function beyond giving the Bank powers to change the Bank Rate and deal in Bills of Exchange as might be necessary. Sir Montagu thought the rates and quantities of purchases and Sales of Sterling should be left to

[1] *Note*.—The British Government, over and above the National Debt of nearly £8,000,000,000, has close upon £1,000,000,000 *IOUs* out in the bazaar in London; and so can always be relied upon to take the same view as the "City" in currency and financial matters.

the Bank's discretion, as in the case of the Bank of England.

But the chief point to which Sir Montagu desired to draw attention was this:

The proposed Central Reserve Bank would extend to India the system by which the Bank of England and other great banks exercise their control over the supply of the country's money, currency and credit. The Bank would bring to India the same remedy for the present unprecedented trade depression as that which had been offered in England—cheaper and more extended credit facilities—and which had up to the present completely failed. India was now called upon to make a decision between PAPER and SILVER. Was India going to pass over to, and acquiesce in a PAPER MONEY system based, *not* on gold (for there was not nearly enough gold available to go round), *not* on silver (because the Reserve Bank Bill of India did not even recognise silver as a suitable money metal), but, in the last resort, *on the credit of the Government who might for the time being hold office?*

Before answering that question, would they ask themselves what kinds of Government might possibly be in office in Great Britain during the next ten or twenty years?

And if this reflection caused them no anxiety, would they next consider what kinds of Government they might see in power in India during the next ten or twenty years?

They must take a long view over this great problem. Surely it would be safer, at least so far as India and the East were concerned, to build India's monetary machinery on a good silver basis, and of good silver rupees coinable at mints open freely to the peoples of India, rather than only on paper notes and subsidiary metal coins whose value and purchasing power would depend, in the last resort, chiefly on the discretion and credit of the Government who issued them?

Sir Montagu felt sure that only by enabling the people, all the world over, to obtain their own money *through open mints*, as in bygone years, rather than only in the form of credits and loans from the new Reserve Bank and other Banks in India controlled, in effect (though perhaps not openly), by the Chief Central and other Banks of the West, could a long-continued rise of prices and return of worldwide prosperity be engineered. Ample supplies of silver money through Open Mints would supplement the cheap credits obtainable from Central and other Banks, and so give the world the increased supplies of money which increased populations and increased production of goods so urgently demanded.

A member of the audience asked if the re-opening of India's mints to the free coinage of silver might not lead to a great rise in the sterling price of silver and a greatly increased output from

the mines which would flood India and so raise prices to dangerously high levels?

Sir Montagu replied that this point had been very carefully considered. The official reply had been given in the House of Lords (by Earl Stanhope on 7th December, 1932) that Government thought that the extra quantity of silver that would be coined were bimetallism adopted would be so small (£20 millions a year as compared with £2,500 millions of gold now available), that " it would make very little difference." Of the total world's production of silver 80 per cent was a by-product of mines producing other metals.[1]

Sir Montagu did not agree with Earl Stanhope. He had himself written a pamphlet (*The World Crisis*) in which this very point was dealt with at length. Sir Montagu thought that the re-opening of the world's mints to silver would produce a gentle rise of prices which would extend over a long period of years. He would willingly send anyone present who wanted a copy of that pamphlet.

India used to be called the " sink of the precious metals," and Indians were thought to be barbarians for hoarding gold and silver. But the United States and France were now the " sinks " and chief hoarders of the precious yellow metal.

[1] With regard to the fear that India might be " flooded " with silver were the India Mints re-opened to the free coinage of silver, see Appendix D, p. 73.

APPENDIX C

CAWNPORE.—" *A False Measure* "

The following is an extract from Sir Montagu Webb's speech at a public meeting at the King Edward VIIth Memorial Hall, Cawnpore, on 22nd December, 1933, held under the auspices of the Cawnpore Branch of the Currency League of India, Mr. T. Gavin Jones in the Chair.

" The Chairman," said Sir Montagu, " has given us a vivid picture of how villagers bring their " Kapas " or cotton to market, how the cotton is weighed, the " Kapas " in one scale, the iron weights in the other ; and how the miserable prices realised are not sufficient to pay for the expenses of cultivation, rent, taxes, inter-interest, etc.

" I want you to think what would happen, if I secretly changed the weights, and put into the scale a weight marked one maund that actually weighed 80, instead of 40 seers. The poor agriculturalist would give me twice as much cotton as I ought to receive, and would not at first detect how I had swindled him. Well, that is exactly what is happening in India to-day. Owing to Government's neglect to exercise any kind of supervision over our Public Measure of Value, money to-day measures almost twice as much of everything as it did a few years ago, and all producers are defrauded accordingly. That is why I urge you to take action to get this injustice remedied."

Sterling Obligations

Asked how the India's sterling obligations could be met, and how the Indian budget could be balanced if the rupee ratio were suddenly changed from 1*s.* 6*d.* to 1*s.* 4*d.*, Sir Montagu said that in the ordinary course of events the restoration of the 1*s.* 4*d.* ratio would tend to raise prices in India and so encourage an expansion of trade. Increased trade would yield Government increased revenue, increased railway earnings, increased Customs and Excise receipts, and (Heaven help the Europeans) increased Income-tax revenue. These increased receipts would help to pay for the increased rupee cost of sterling remittances.

That was the orthodox answer. But if he were Viceroy and autocrat of India, he would give another kind of answer. He would sit down and dictate a letter something like this :

"Dear Mr. Secretary of State for India,—Owing to Government—your Government and my Government—failing to take any effective steps to correct the terrible distortion in the purchasing power of our money, prices of agricultural produce in India and England have fallen by nearly 50 per cent during the last five years. As we pay our annual sterling obligations to England, not in gold, not even in sterling, but in goods (mostly raw products), we are now forced to send out of the country nearly twice as much of our goods as before to pay the same old sterling debt. This does not seem to us fair. So we ask for a 50 per cent discount on our present payment. We enclose herewith a cheque for £15,000,000 in full settlement of our current year's liabilities. Please acknowledge receipt." (*Loud laughter.*)

Currency Injustices

"All joking apart," continued the speaker, "it is essential that the position be studied and all currency injustices remedied, and a better currency for India be evolved. That is the first business of the Currency League. The present state of affairs cannot be allowed to continue. To-day, we see populations multiplying in every part of the world. We see production, thanks to science and wonderful machinery, also everywhere increasing. More people; more wants; more goods; yet trade everywhere shrinking! The truth is that everything is increasing except money in the hands of the people." That was being restricted—by the gold-hoarding mania in the West, by the actions of those who control the Central and other Banks and were striving to restrict money-metal to gold only—and by the unadulterated folly of those who have been selling the State's stocks of "Surplus" silver, and trying to introduce paper money that would be controlled by the new Reserve Bank of India, heaven alone knows how.

This was a very hazardous venture. They must fight against it with all their power, and insist on India re-establishing a full value silver currency with open mints such as existed when India rose to the position as the greatest trading division of the British Empire.

"Our good silver rupee is to-day one of the best coins in the world," concluded Sir Montagu. "Let us proclaim to the United States of America that we are willing to co-operate with them in the immediate re-monetisation of silver. Let both countries' mints be re-opened to the free coinage of silver, and so give to the world that supply of additional metallic money which is essential to counter-balance the world's rapidly expanding population and greatly increased trade. Such additional money would come, not by favour of the Central Banks of the

West, but from endless independent sources all over the world; and would together with the ordinary Bank credits, initiate a prolonged period of rising prices all over the world, and an early and certain return to world prosperity. (*Cheers.*)

ADVANCE INDIA!

"India to-day is economically stronger than any country outside Great Britain. India cannot wait for other nations to compose their monetary differences. No world monetary conference has ever succeeded yet; and never will. Conflicting interests are too powerful. Let us therefore hold out our hands in readiness to co-operate with the United States in rehabilitating Silver. Let us lead the way. India is strong—strong in her comparative freedom from unremunerative debt—strong in the wonderful richness of her soil—strong in the steady industry of her vast populations. And being strong, she can give the world a lead. Let us act together, and all go forward. Advance India!" (*Loud cheers.*)—From the *Hindustan Times* of 26th December, 1933.

APPENDIX D

CALCUTTA. I—" *The Position of Silver* "

The following special articles on " The Position of Silver " by Sir Montagu Webb, appeared in " The Statesman " of Calcutta of 29th and 30th December, 1933.

The decision of President Roosevelt to reopen the mints of the United States to the coinage of silver dollars creates a position that demands the closest study. The present plan is to coin only silver unearthed in the U.S.A.; and not more than one-half of that production, the remainder being kept " in reserve in the Treasury." The newly coined dollars will be returned to the depositors who will put them into circulation. White House estimates that the transaction will be equivalent to buying the whole silver production of the U.S.A. (24,000,000 ounces per annum) at 64½ cents per ounce. This figure, however, is largely a theoretical one on which there can be more than one opinion.

It is doubtful if this new move of Mr. Roosevelt's will produce any immediate effect on the world price of silver. Although the U.S.A. ordinarily export large quantities of silver, mostly to China, they also import large quantities, chiefly from Mexico, Canada, and Peru, with the result that very little of the silver unearthed in the U.S.A. is nowadays exported.

The large exports of 1918 and 1919 were quite exceptional and represented the Pittman Act silver obtained by melting down unused dollars in the U.S.A. Treasury for sale and export to India. The appropriation of 24,000,000 ounces of U.S.A. silver from the current year's world production (say 198,000,000 ounces) for local monetisation, will leave the rest of the world's production and consumption unaffected, unless the U.S.A. commence to import silver for use in their own sterling-silverware, photographic and chemical industries which is not impossible. Silver in London has moved up slightly, to 18¾*d.* in the last few days.

The most significant point in connection with President Roosevelt's reopening of the U.S.A. mints to the coinage of silver, is the fact that it is the first step in the direction of the general rehabilitation of silver which many influential men of wide business experience consider to be the only effective way of raising the general level of prices, and so lifting the world out of the present slough of depression, in which, owing to neglect and lack of foresight, we have allowed it to become bogged.

What is Wrong

Experts have explained that many causes have combined to bring about the present state of affairs—the progress of the normal "trade-cycle," the invention of more efficient machinery, the scientific discoveries in breeding better and more prolific varieties of grains, seeds, fibres, cottons, etc. That was all before the Great War. Then came the War with its widespread destruction and disorganisation, its artificial stimulus of certain agricultural and manufacturing industries; followed by War Reparations, and War Debts, the erection of tariff barriers, the maldistribution of gold, financial obstructions and so forth; all of which have possibly contributed in some measure to the present amazing situation when production is greater than ever before, populations greater than ever before, wants, desires, and ambitions greater than ever, yet trade steadily shrinking, not merely in India, but in all parts of the world. Obviously, something is very wrong, somewhere.

The ways in which the ordinary man of business experiences the "economic blizzard" (as the politicians are prone to describe it), are (1) in an unprecedented fall in the general level of wholesale prices, and (2) in an unparalleled dwindling of business on all sides. There can be but little doubt that shrinking trade (with its defensive tariffs quotas, and financial obstructions) is the direct result of the long-continued fall of prices. It is the blight of falling prices, therefore, that has first to be tackled. All expert investigators, from the MacMillan Committee of 1929–31 to the Ottawa Conference, the World Economic Conference, and that very remarkable leader, President Roosevelt, are agreed. Prices *must* be raised forthwith, or civilisation will crash. (Because present advanced rates of salaries, wages, rents, and other fixed charges cannot be paid from current earnings at present lowered levels of prices).

Raising Prices

There are two ways of raising prices, (1) by restricting production, or (2) by increasing demand. The former way, the cruellest and most inhuman policy ever sanctioned by a bemused civilised Government—has actually been put into operation in several countries. Crops are being destroyed, food is being thrown back into the sea, land put out of cultivation, wages and salaries cut, men and women discharged from employment, and misery and destitution multiplied on an appalling scale.

The latter way, and the only sane way—increasing of demand—is also being attempted; but weakly, and in a manner so useless and ineffective as to be altogether infructuose. Demand is hoped to be increased by the offer, through the world's banks, of

cheaper and more extended loans to selected credit-worthy individuals. This policy failed in America three years ago. It failed in Europe two years ago. It failed everywhere in the world but last year. And it is still failing; and for the simple reason that the credit-worthy lack confidence in Governments' management of their currencies and of the banks whom Governments allow to control the currencies; and offers of cheap and extended credits do not reach, and could not help the great masses of the unemployed—probably 30 to 40 millions of peoples if Asia's workless multitudes be included. Yet this is all that our orthodox Governments and their orthodox financial advisers can venture to suggest.

Here it is that the protagonists of silver come in. Nearly three quarters (i.e. over £2,000,000,000) of the monetary gold in the world has been withdrawn from world-use by the United States, France, and other Governments in Europe. Why not fill this deficiency and supplement what little gold is left by bringing in silver to the rescue? The essential, vitally important remedy is to raise world prices. What more certain to achieve this end than reopening the world's mints to the free coinage of full legal-tender silver money? Such money is popular with, and acceptable by, quite one half of the populations of the earth. Moreover, the people—the great mass of the people—would be able to obtain some of this money, directly or indirectly, without having to beg for loans from the banks. And by aid of this additional cheap and popular money, the people could convert their wants, desires, and ambitions into effective demands, and so set in motion that upward movement of prices which all are agreed *must* be engineered to avoid widespread disaster.

After the Napoleonic wars, and during this very period of the last century, England and Europe passed through a period of very acute depression culminating in the "hungry 'forties." The gold discoveries of California and Australia saved the situation.

After the Franco-Prussian War of 1870, and the extraction by Germany from France of £200,000,000 of France's gold (a currency policy—gold in place of silver—which several smaller countries followed) Europe passed through another period of grave depression, there being not enough gold in the world to go round. The discovery of the amazing Witwatersrand gold reef in the Transvaal, and subsequent enormous output of gold, saved the situation.

To-day, we are once more going through this same experience but in a much more serious degree—severely falling prices and not enough gold available to go round. Are we to wait like Mr. Micawber for something to turn up?—for another string of

Rand Gold Mines to be found and opened up? A group of very experienced men, headed by Lord Hunsdon, Lord Desborough, Lord Lloyd, Sir Robert Horne, and many others urged the remonetisation of silver—the reopening of the world's mints to the free coinage of full legal-tender silver money.

But, it may be asked—How would it work? The answer is briefly as follows:—The present prices of silver in London is 18¾*d.* per ounce. Reopened mints would quickly raise the sterling price of silver. This would mean

(1) Silver production all the world over would become more profitable. More brains and labour would be required at the mines.
(2) The purchasing powers of all interested in silver production would be materially increased.
(3) The basis of credit would be everywhere enlarged with an effect on the world's purchasing powers exactly analogous to that produced in the past by the discoveries of gold in California, Australia, South Africa, and elsewhere.
(4) The value of the huge silver reserves of China and India, and elsewhere, would be greatly increased, and with it the well-being, credit, and purchasing capacities of at least one half of the population of the globe.

One Common Fear

But shouldn't we be flooded with silver if the sterling price which is now under 20*d.*, rose to 40*d.* or 50*d.* per oz. and the Indian and other mints were open for the free coinage of rupees, etc.? is a very common inquiry. Here is the British Government's official reply, by Earl Stanhope, in the House of Lords, on *7th* December 1932, in response to a motion by Lord Hunsdon to return to bimetallism. "The annual world output of silver is now about 200,000,000 ounces. At 2*s.* per ounce, this only amounts to £20,000,000 per annum. An increase of £20,000,000 to the world's present supply of gold—£2,500,000,000—would *make very little difference.* Therefore, the view of Government is that at the forthcoming International Conference, we ought *not* to pursue this question in the first instance." In other words, the British Government do *not* consider that the reopening of the world's mints to silver would raise world prices at all.

Nobody outside the British Government holds this view. Most people fear that, with open silver mints, the world might be so flooded with silver, that prices would rise so rapidly that money might lose a half, or more, of its purchasing power. This fear needs careful consideration.

To-day's London price of silver is 18¾*d.* per ounce. In 1920, the price rose to 80½*d.* per ounce. The following figures

show the effects on the world's production of that and the subsequent year's high prices:

Year.	Average Price.	Millions oz.
1919	125 cents	180
1920	134 ,,	173
1921	80 ,,	172
1922	75 ,,	210
1923	70 ,,	246
1924	74 ,,	240
1925	70 ,,	245
1926	62 ,,	254
1927	57 ,,	251
1928	58 ,,	258
1929	53 ,,	261
1930	38 ,,	248
1931	32 ,,	220
1932	39 ,,	198
1933, say	38 ,,	say 200

This shows that the world would not be "flooded" with silver even if the sterling price rose to 30, 40 or even 50 pence per ounce.

Some Conclusions

The following table based on data from the American Bureau of Metal Statistics is still more illuminating. It represents the average annual production of the silver of the world in millions of ounces, and the percentages derived from "dry ores" (i.e. ores producing only, or mainly, silver); also the average annual prices in pence:

Year.	Output.	Dry Ores. Per cent.	Price. *d.*
1912–14	212	40	27
1915–17	186	32	32
1918–20	186	35	55
1921–23	207	45	35
1924–26	244	26	32
1927–29	256	19	26
1930–31	220	20	16

These figures show very clearly that (1) at 27*d.* per ounce and under, silver production from "dry ores" fell off, (2) at 55*d.* per ounce, the average world production increased by 21,000,000 ounces per annum (in 1921–22) the whole of which came from "dry ores," and (3) at 35*d.*, per ounce even, the output of "dry ore" mines once more fell off. From this we can conclude:

(1) The production of silver as a by-product (from lead and copper mines) is very largely uninfluenced by the price of silver.

(2) The productions of silver from silver mines, even at 50*d.* per ounce and over, did not in the last 20 years exceed an extra 28,000,000 ounces per annum.

(3) A price of 30*d.* to 40*d.* per ounce is not in the least likely to produce a "flood" of silver of dangerous dimensions. In short, reopening the Indian and other mints to the free coinage of silver would not be likely to do more than bring about that gentle and long continued rise of prices *which every authority is agreed* must be engineered to avoid widespread bankruptcy.

India's Position

What is to be India's answer to President Roosevelt's bold step in reopening the U.S.A. to the free coinage of U.S.A. produced silver? The President anticipated that the whole American Continent, both North and South, would before long follow his lead. India, the chief silver-using country under the British flag must not stand out, with her thoroughly good rupee for ever linked to an uncertain paper pound. India's rupee *has* to be derated sooner or later in order to remove the handicap under which she is now labouring; and the sooner the better. With reopened mints, India's silver reserves in the hands of the masses would greatly increase the people's purchasing power. The same result would be produced with regard to China's stocks of silver. A doubling of the purchasing powers, or even an increase of lesser magnitude of several hundreds of millions of people in Asia would go a long way towards that raising of prices essential for India's salvation. Now is the moment to act.

BIMETALLISM AGAIN!

Early Legislation in the United States?

Washington, Jan. 1.

The fact that nearly one-third of the Senate is pledged to support the resolution in favour of a free and unlimited coinage of gold and silver has brought bimetallism to the forefront for discussion in the forthcoming session of the American Congress.

It is believed that plans for monetary legislation will emerge from the conference which President Roosevelt is holding with the leaders of both Houses this evening.

Well-informed quarters predict that quick action will be taken by Congress and despite the big silver *bloc,* the leadership of President Roosevelt will be followed.—*Reuter.*

APPENDIX E

CALCUTTA. II—" *Some Points of Theory* "

The following is a condensed version of Sir Montagu Webb's striking address to a large audience at the Indian Economic Institute, Calcutta, on Thursday, 18th January, 1934, with Mr. Amritlal Ojha, President of the Indian Chamber of Commerce, in the Chair. (*Indian Finance, 27th January,* 1934.)

Sir Montagu opened with congratulations to Mr. Nalini Ranjan Sarkar to whose foresight and patriotic energy Bengal owed the Economic Institute. Sir Montagu continued :

" Writing and money are the two greatest inventions of the human brain—the language of intelligence, and the language of production, of trade, of progress. The invention of money made possible the development of the Division of Labour to the degree in which we see it in operation to-day. Modern civilisation is only possible by aid of this great invention, money. Should money fail to function properly, then civilisation itself would be in jeopardy. It behoves every intelligent man and woman, therefore, to give the theoretical basis and practical use of this wonderful contrivance, money, their closest study.

" Without allowing our imagination to conjure up prehistoric pictures of the first origin of money, let us use our own faculties and experiences, and let us define for ourselves the present day functions of money. One of the things which differentiates man from all other creatures is that he is a tool-using animal. And, when buying and selling, the tool which he employs is money. Indeed, in the conditions in which we are living to-day, it is impossible to obtain what we require without money. Money's first function then is to purchase goods, services and rights. It is, in fact, our Purchasing Tool.

" A second function of money is to enable us to measure values, not exactly as a maund measures weight ; or a yard measures length ; but still a measure. If we are willing to give two rupees for this, and four rupees for that, we know at once that, in *our* minds, *this* is only half as valuable as *that*. Thus, money serves as a common Measure of Value.

" Money has two other functions, as a moment's reflection shows us. If we live in the country, many miles from a railway,

and still farther from any reliable banker (and most of the populations of the East and of the tropics are so situated), then we can put our money in a box; or hide it somewhere in the house; or bury it in the ground till such time as we want to use it. In this way, money serves as a Reserve or Store of Wealth.

"And lastly, if we want to borrow from, or to lend to, any persons; or if we enter upon any other transaction readjustable at some future date, the terms in which the readjustment is ordinarily recorded, and finally settled, are terms of money. In short, money serves as a Standard of Deferred Payments.

"So now we see the four functions of money. It serves as:

(1) A Purchasing Tool;
(2) A Measure of Value;
(3) A Store of Wealth; and
(4) A Standard of Deferred Payments.

"The essential characteristic of all public standards or measures is *stability*. We are all familiar with public measures of length, of weight, of capacity and of value. In the cases of length, weight and capacity, it is comparatively easy to define them physically; and, by preparing official standards with which local copies can be compared, to assure a correct and proper use of such standards throughout the country.

"But in the case of the Measure of Value, the matter is more complicated. In the first place, money is rather a common denominator of the value than an actual measure. Thus, it is only by finding the value of *this in money*, and of *that in money*, that we are able readily to compare the values of this and that. And in the second place, it is impossible to define with accuracy the Measure of Value by constructing a specimen measure; because the value or purchasing power of 'money' is not the value or purchasing power of a single coin or unit of money, but the ratio or relation between all money offering to purchase, and all goods, services, and rights offering for sale.

"And yet practical persons have devised a way of detecting *changes* in the Measure of Value; and, in consequence, ways of aiming at approximate stability in this Public Measure. By taking forty or fifty of the chief articles of trade, and representing the price of each article on any given date by the figure of 100, we can easily work out variations in prices between prices on the given date and those on a date, say, five years later, in *percentage*. And by combining these percentages into one average figure, we can see how the purchasing and measuring functions of money have varied at the end of the five years. Thus, if the average price of fifty commodities to-day is *twice* what it was five years ago, we know that the purchasing, measuring and other functions of money have *halved*. On the other hand, if the average price of commodities to-day is only one-half of what it

was five years ago, we know that the measuring and other functions of money have *doubled.*

"Reliable Index Numbers, as they are called, of wholesale prices are now kept in the leading countries of the world; so we are able to see quite clearly from month to month how the Measuring and other functions of money vary.

"Against instability or change in our Public Measures, the public are most carefully safeguarded, because any change involves grave injustice to somebody—buyer or seller, debtor or creditor. And if the change be effected secretly, unknown to one or other side of a trade transaction, then the use of a changed or false measure becomes cheating and a Police prosecution follows. The one exception is our public Measure of Value. No matter how that Measure varies, no matter how one side to a trade transaction is swindled (there is no other word for it), by an unexpected variation in the State's Public Measure of Value, the seller or buyer, debtor or creditor, tax-payer or receiver, has no legal remedy—at present."

* * * * *

The lecturer here gave an example from Cawnpore where sellers of cotton were receiving such a low price for their produce that it did not, taking land revenue, etc. into consideration, pay for the cost of growing it. Sir Montagu believed that many agriculturists in Bengal, in Madras, in the Punjab and other parts of India were in the same difficulty. What would happen, he asked, if he secretly substituted in the scale a weight which, though marked *one maund*, actually weighed *two* maunds? The poor cotton grower would unknowingly deliver two maunds of cotton instead of one, and would eventually be ruined.

Drawing from his pocket a coin, Sir Montagu held it up to the audience.

"This coin is marked one rupee," he said, "but in reality it measures *two* rupees. When the buyer of to-day pays the agriculturalist, he receives twice as much produce of the fields as he got five years ago. When Government demands its land revenue, it is demanding from Zemindar and ryot twice as much of the sweat of his labour as it is fairly entitled to. So does the money-lender, and all other creditors. And when India pays its customary annual sterling obligations to the Secretary of State, it is now forced—through the distortion of the Money Measure—to give twice as great a volume of goods as it gave five years ago to pay exactly the same sterling liability.

"Is this right? Is this fair?"

Coming to the urgent, practical side of the subject, Sir Montagu asked his audience:

"What are we going to do to put matters right—to correct the cruel distortion of our public Measure of Value—to restore prices to the level at which they stood five years ago? For it is this distortion—this unprecedentedly steep fall of prices—that very largely explains the severity of the economic crisis in which we are now all involved.

"And this is where the problem of maintaining approximate stability of our Measure of Value comes directly before us. As the average level of prices varies in response to the interplay of the demands of *all* purchasers and the offers of all sellers, prices will rise (i.e. the Measure of Value will shrink), if demands exceed supplies; and fall (i.e. the Measure will expand), if supplies be greater than demand.

"To correct the shrinkage or expansion of our Measure of Value, the State (or a State-guided Central Bank) should restrict or increase the supply of *money*—and "money" *includes* credit or bank money as the occasion demands. (I exclude the destruction or State restriction of *goods* as being, in present-world conditions of 30,000,000 or more unemployed—unsound, inhuman and sheer madness.)

"As the world is to-day suffering from a distorted expansion of the public Monetary Measure, i.e. from a grave fall of prices, the only practical remedy that will immediately and directly correct the position, is to increase effective demand, that is, the demand by people possessing, or having command over, monetary Purchasing Tools which they desire to employ. Two courses are open to-day—one purely local, and the other both local and world-wide. They are:

(1) The immediate de-rating of the rupee in its relation to sterling, which would give more rupees to Indian sellers for everything sold overseas; and

(2) The reopening of the Indian Mints to the free coinage of silver in co-operation and under agreement with the United States of America, which would give the masses all over the world more purchasing power without having to borrow it from the banks which, for most people, is an impossibility."

In concluding, Sir Montagu suggested taking a second leaf from President Roosevelt's book of remedies, and starting an "N.R.A." in India. The chief objects of our Indian National Recovery Association might be:

(1) To encourage and provide facilities for a systematic study of all economic questions in their relations to India, and in particular of monetary problems; so that a monetary standard and a currency policy best suited to the interests of India may be evolved.

(2) To educate and organise public opinion with a view to re-rating the rupee to sterling at a point best suited to the domestic needs of India, and to the developments that have taken place in international monetary theory and practice.

(3) To study problems connected with silver, with a view to increase the purchasing power of silver-using countries.

APPENDIX F

MADRAS.—" *The Only Way Out* "

Extract from a speech at a Rotarian Luncheon in the Gymkhana Club, Madras, on the 12th January, 1934, Rotarian President R. Jackson, F.R.I.B.A., in the Chair.

Though customary among politicians to talk about the " economic blizzard that had struck the world " (as though it were some Act of God before which wretched humanity could only bend in silence), Sir Montagu strongly dissented from this view. Our present economic troubles, he said, were entirely man-made—the results of public indifference, official neglect, and almost incredible folly on the part of politicians and their guides—the great monetary powers behind the scenes—to whom most modern governments were scandalously indebted.

Fall of Prices

Many authorities had written about the economic crisis. Different schools of thought had attributed the present appalling situation to the " trade cycle," improvements in machinery, and scientific advances in breeding better and more prolific types of grain, cotton, fibre, etc. That was before the Great War. Then came all the consequences of the War—industries topsy-turvy, over-production, mal-distribution, hostile tariffs, and a dozen other obstructions and abnormalities. No doubt, all these causes may have contributed something to the present debacle. The forms in which business men had felt the pinch, however, were in (1) an unprecedented fall of prices ; and (2) an unparalleled shrinkage of trade ; both accompanied by heartrending unemployment, misery and degradation.

It was now generally recognised that hostile tariffs, financial restrictions and other obstructions to trade were largely defensive measures forced into being by the shrinkage of trade, itself caused by the steep fall of prices. It was the fall of prices, therefore, that they must tackle *first*. Other problems would be dealt with later.

Comparing the rupee of to-day to a fraudulent maund weight which, though marked " One maund," actually weighed *two* maunds, the speaker argued that India's chief coin, though marked " One rupee," was actually buying to-day almost as much as two rupees had purchased five years ago. In other words, prices generally had fallen from 30 to 50 per cent. Think

of the many grave injustices which this distortion of India's Public Measure of Value involved. Producers—and producers were the roots of all prosperity—were compelled to hand over 30 to 50 per cent *more* of their output than before to pay their Land Revenue, their Rents and Taxes, their debts and all other fixed liabilities. Creditors everywhere received more than their due, at the expense (and possibly ruin) of debtors. And as most people were in debt, and poor debtors at that, the great majority of people were mulcted—and unfairly mulcted, in order to pay unearned tribute to a well-to-do minority. Could anything be more absurd, or more noxious to the welfare of the State as a whole than this?

Steps should be taken at once to correct the grave distortion of the rupee—to restore India's Public Measure of Value to its proper capacity—to raise the general level of prices at least to that of five years ago.

There were two ways of raising prices—by restricting production, and by increasing demand.

Restricting production was actually being tried in many parts of the world; and that, too, notwithstanding that thirty millions of people or more were unemployed, underfed and in some cases starving. Such a policy was inhuman and foolish in the extreme. It was more than foolish. It was sheer madness.

Increasing demand was the only right remedy. But demand to be effective must be made with money. So far, Government, tutored by financial interests, had only suggested more borrowing from the banks; and Government had appealed to the banks to give cheap credits-long-term credits on the easiest possible terms, in the hope of reviving business. For three years this "policy"—if it can be called a policy—had failed; and for obvious reasons. It did not put money into the hands of the masses throughout the world, and did not restore world-wide confidence.

In India, the fall of prices had been emphasised by an overrated rupee. The 1*s.* 6*d.* ratio was wrong from the first. Many experts at the time (including the East India Section of the London Chamber of Commerce), urged the Hilton-Young Commission to wait; but Government wouldn't listen. The Macmillan Report of 1931, and the world's Index Numbers of prices of to-day, clearly showed the rupee to be still overrated. It was most deplorable that whilst so many other countries had deliberately de-rated their currencies, *and had benefited thereby*, India's rupee was still deliberately overrated; and India was thus *denied even temporary relief.*

The only certain way out of the present world economic mess was that by which civilisation had been saved from disaster on at least two recent occasions. The "hungry 'forties" of last

century was a period of deadly falling prices. The depressed 'eighties of fifty years ago—one or two of those present possibly remembered them—was also a period of continuously falling prices. It was *not* the bankers with offers of loans on easy terms, that saved the world on either occasion. It was the great gold discoveries in California and Australia. It was the even more wonderful gold discoveries of South Africa (and of Coolgardie and the Klondyke). Those discoveries brought new hope, new energy, *and new money-tools* to the help of a despairing world—tools that had not been borrowed on first-class security at 4, 5, or 6 per cent—but brand-new, metallic money-tools, the winning of which caused great cities to spring up—San Francisco, Melbourne, Johannesburg—and several others.

" All this could happen again to-day. We have only to give the word. All that is necessary is to join hands with President Roosevelt in his enlightened policy of reopening the U.S.A. Mints to the free coinage of silver—unlimited legal tender silver money—and the recovery and progress of the 'sixties and the 'nineties onward will quickly repeat itself."

Several questions were put to the speaker which Sir Montagu answered at some length. The most apposite was perhaps that of Mr. G. T. H. Bracken, I.C.S., who asked if the rise of prices which was regarded as essential to save money from bankruptcy, could not be effected by new issues of paper currency.

Sir Montagu replied that prices could undoubtedly be raised in certain countries and localities by issues of paper currency. But he did not consider that paper was an appropriate material for money in the tropics, nor was it nearly so safe as money coined of silver. Reopening the world's mints to the free coinage of silver would create a stimulus in all parts of the world where silver was produced. First the miners would benefit; then the shareholders; then producers all the world over who supplied the wants of the miners and of all interested in the mines. That stimulus would raise prices and set the whole world on the path to prosperity. Therefore let them join hands with Mr. Roosevelt.—(*Madras Mail*, 12th January, 1934.)

Public addresses were delivered in Madras, advocating the de-rating of the rupee and the reopening of the Indian Mints to the free coinage of silver, at

(*a*) The Southern India Chamber of Commerce, Mr. M. Jamal Mahomed Saib in the Chair, on the 11th January, 1934 (*vide* the *Hindu* and *Indian Express* of 12th January, 1934); and at

(*b*) The Gokhale Hall on the 12th January, 1934, under the auspices of the Madras Branch of the Currency League of India.

APPENDIX G

BOMBAY.—" *De-Rate or De-Grade* "

Proceedings of a Public Meeting of the Citizens of Bombay held at the Blavatsky Lodge on Tuesday the 23rd January, 1934, under the Chairmanship of Seth Mathuradas Vissanji Khimji, President of the Currency League of India.

Among those present were :—Sir Purshotamdas Thakurdas, Kt., C.I.E., M.B.E., Mr. H. H. Sawyer, Mr. A. D. Shroff, Mr. Chunilal B. Mehta, Mr. Jamnadas M. Mehta, Prof. Sohrab R. Dawar, Mr. L. R. Tairsee, Mr. Gordhandas G. Morarjee, Mr. Sakalchand Shah, Mr. Sarabhai Prataprai, Mr. J. K. Mehta.

The Chairman of the meeting spoke as follows :

" Friends, I have great pleasure, both on behalf of the Currency League and on your behalf, to welcome Sir Montagu Webb in our midst to-day. I am sure Sir Montagu needs no introduction to this audience. Those who have even cursorily followed the Currency and Monetary controversies are aware of the contributions made by him in the course of the last quarter of a century to the same. Sir Montagu has, if I may say so, devoted a life's study to the question, and, what is more, has shown a remarkable capacity for making a synthesis of theories and practice. We may or may not agree with all the views of Sir Montagu, but we recognise in him a man of original thinking on the subject and of dynamic potentialities in his powers for publicity and propaganda. I am sure that the Currency League has in him a powerful ally and an ardent publicist.

" I cannot pass over this occasion without giving public expression to our sense of gratification at the refreshing candour of our European friends who have supported the Currency League. I only wish that in all spheres of public and commercial activities our European friends who claim to have a vast stake in the country would cease to consider themselves as sojourners and view all questions from the one and only criterion possible, viz. the best interests of the country.

" I am told that there are many Europeans in this country who share the public view on the question of currency and exchange policy of the country, but they are for obvious reasons keeping back, and chafing in private at the obstinate stand of the authorities that be. I only say that they are doing a distinct disservice both to themselves and to those whom, by their

apparent indifference, they encourage. I do not want to stand between you and the distinguished speaker of the day by any lengthy speech on the subject of this evening. But I must take this occasion to publicly announce that the League does not consider this question of the external value of the Rupee as settled even for the immediate present, by the vote of the Legislature on the ratio and Exchange clauses of the Reserve Bank Bill. Many settled facts have in the past been unsettled, and the League hopes that this adverse vote will only help to give the movement the necessary momentum to get this fact also unsettled sooner than later.

"I will now request Sir Montagu to address you."

Sir Montagu Webb's Address

"Mr. Chairman, Ladies and Gentlemen—Three months ago, when I was in England, I received a telegram from the Currency League of India inviting me to accept the office of Vice-President of the League. The telegram stated that the object of the League was to educate public opinion regarding the ratio of the rupee to sterling, and the desirability of immediately de-rating the rupee to some figure better suited to present circumstances in, and out, of India, than 1*s.* 6*d.*

"As my own conclusions in these matters were entirely in sympathy with these objects, I readily accepted the honour which the Currency League had done me and became one of the League's Vice-Presidents.

"On my arrival in Karachi at the end of November, I at once set to work to form a Karachi Branch of the League. That was completed early in December; and I then proceeded to New Delhi where, in the gallery of the Assembly, I listened attentively to the debate on the Reserve Bank Bill.

"Although there is no urgent economic need, in my opinion, for a Central or Reserve Bank in India at the moment, political considerations make such a Bank desirable; and I, therefore, when writing or speaking publicly, have given the Bill my support on general grounds.

"But the Bill has one very grave defect—a defect so serious that I regard it as an outrage on India. Although this is a silver-money country which grew to greatness (about 1890 our trade was larger than that of all the British Dominions put together), by aid of silver money, and open silver Mints, the British Government, who practically drafted the Bill, do not propose to allow India's Reserve Bank to deal in silver, or even to hold silver bullion as part security against India's Paper Currency. It can hold hundis—it can even hold foreign bills payable in a foreign currency on the other side of the world, against paper currency circulating in India; but it is not allowed to hold silver bullion!

No greater blow has been aimed at India's monetary system since the Indian Mints were closed to the free coinage of silver forty years ago, thereby depriving millions of the poor of this country of three-quarters of their savings.

" But this was not the matter with which the Currency League were chiefly concerned. The League were chiefly concerned with Clauses 40 and 41 which in effect, stereotyped the sterling exchange ratio at 18*d.*, notwithstanding the very widely held belief (now shared by many expert Europeans as well as Indians), that this ratio was wrong and unfair to India.

" It may be questioned whether the moment when Government were trying to rush through the Reserve Bank Bill in the shortest possible time, was the most appropriate moment for changing the ratio of the rupee to sterling. It was certainly a most suitable moment for making the strongest possible protest against a continuance of the overrated rupee seeing that most other countries had de-rated their currencies, and that Japan, in particular, was undermining our trade in all directions, largely by the aid of their depreciated Yen.

" Government could have greatly lessened public hostility to Clauses 40 and 41 by making them read that the proposed Reserve Bank of India shall buy and sell sterling at the current legal rate of the day, without making any mention of 1*s.* 6*d.* or any other rate. This would have fully satisfied the requirements of the case.

" But, as you all know, the Zoological Gardens contain no animal more stubborn than a Government Department, when called upon to correct a blunder and change to the right direction. And so, although every expert, in and out of Government service, knows very well that 1*s.* 6*d.* is wrong, and will have to be corrected sooner or later, Government in the Legislative Assembly, by aid of its own officials and a few tame Yes-men, carried their 1*s.* 6*d.* Clauses of the Bill.

" I listened most carefully to the Finance Member's final defence of the 1*s.* 6*d.* Clauses. As a clever effort in the gentle art of trailing the red herring, it won my unstinted admiration. But it contained not a single sound argument in favour of 1*s.* 6*d.* The final appeal to consider the pathetic condition of the poor labourers in the fields, who, it was asserted, would not benefit by a single pie, even if the rupee were de-rated to 1*s.* 4*d.*, was completely nullified by the subsequent admission that those who fed the labourers, and lent money to ryots, zemindars and others, had not been able to recover what they had lent—had, in fact, acted as " shock-absorbers," whose sufferings and losses Government would have seriously to consider !

" And just as I heard no sound argument in support of the 1*s.* 6*d.* ratio in the Legislative Assembly, so I have heard no sound

argument anywhere else. I have visited Lahore, Old Delhi, Cawnpore, Madras and Calcutta. In all those places I have discussed the present economic situation with the leading brains—Indian as well as European. I have pleaded for more rupees for the people (which would quickly follow a de-rating of the rupee, at least so far as all Indian products sold overseas were concerned). And I have advocated a reopening of the Indian Mints to the free coinage of silver in co-operation and conjunction with the United States of America (which would give the Indian masses still more rupees and purchasing power for their three thousand million ounces of silver ornaments, and silver hoards would be trebled in value, and convertible into unlimited legal tender rupees) and with very good results.

"For my tour around India has been most encouraging in that it has revealed to me that there are quite a large number of responsible people—Europeans as well as Indians—who believe in de-rating the rupee and reopening Mints. I was particularly surprised with Calcutta where I found strong support in unexpected quarters—European as well as Indian. Patriotic Indians must not feel surprised, however, if they do not receive open support in these matters from European Chambers of Commerce. In the first place, such Chambers are composed mostly of Firms (not individuals) whose headquarters are on the other side of the world. And in the second place, individuals are not authorised to take action or give votes on a currency reform that looks on the surface almost revolutionary.

"I have met many firms selling European manufactured goods in India, who actually imagine that an unnaturally high exchange like 1*s.* 6*d.* is an advantage to them. They do not realise that the over-valued rupee hinders exports, and so tends to leave the country-side so short of money that it has nothing left to spend on imports. Let such Firms compare the volume of their import business to-day with that of the pre-war days, or of even five years ago, and they will realise that India's over-rated rupee and unduly depressed price-level are paralysing and killing business.

"And then, too, there are individuals (including servants of Government) who do not look beyond next month's remittance to their families in England. They are horrified at the idea of the rupee being re-rated at, say, 1*s.* 4*d.* They forget the hundreds of Europeans and others who have lost their jobs altogether through the terrible shrinkage of trade, and the probability of their own futures being cramped or prematurely cut short.

"But do not let us deceive ourselves. Do not let us imagine that the 1*s.* 6*d.* rupee is the chief cause of all our troubles, or that every difficulty would disappear were the ratio to be suddenly

dropped to 1s. 4d. The present economic catastrophe is world-wide. Experts have given us a dozen explanations of it. College Professors tell us of the passage of the "trade cycle" and that we have just passed the lowest point. Other learned men refer to the progress of mechanical invention, and of science in breeding new kinds of grains, seeds, cotton and other fibres better in quality and more prolific than before. Ordinary business men talk of the Great War and the universal disturbances caused, production turned upside down, over-production here, under-consumption there, and so on—tariffs, quotas, financial restrictions. America's "Technocrats" try and scare us with talks of the amazing development and output of machinery which will soon work almost entirely by itself, so that there will be no need for producers, the only need will be consumers!

"Don't allow yourself to be disturbed by this Babel of voices. The great fact is that there is more of everything in this world to-day except money-tools in the hands of the people. Financiers, bankers and gold-money monopolists in the West have so arranged matters that there is not now half enough money in actual use; and everybody is buried beneath masses of indebtedness that neither individuals, companies, local bodies, nor Governments themselves can possibly repay; whilst private persons, as prices fall, drop out of employment; trade shrinks; everybody erects defensive tariff walls, quotas, financial obstructions and restrictions, and the whole world slides downwards in the direction of universal bankruptcy.

"The first measure of relief that we here in India need, is a de-rating of the rupee—a restoration of the rupee to the relation at which it stood with sterling for nearly 20 years. That would give more rupees to Indian exporters and would tend to restore rupee prices to the level at which they stood five years ago.

"The only alternative to this is a general policy of Degradation. Everything and everybody must be de-graded to the levels of bygone years. It is no use Government endeavouring to save themselves by imposing utterly unsound taxes like the Export Duties on hides and skins, or heavy duties on simple articles of food like salt, wheat, sugar, etc. Our present excessively heavy import duties are simply encouraging smuggling on all sides, whilst surcharges on railway freight, income-tax, etc. are killing the goose that lays Government revenue eggs. All these crushing burdens will do nothing but harm all round. Government must de-rate the rupee or de-grade everything and everybody. Postal and Railway servants have already been sacked by the thousands, and all Departments are cutting down their activities. Even the Bombay Corporation and the Bombay Port Trust are, I notice, reduced to temporary bankruptcy; and the Bombay

Government is not far from the same condition. It is all part of the penalty paid for an overrated rupee.

"You will remember that one of the functions of Money is to measure values. Our rupee of to-day is like a maund weight that has been secretly and surreptitiously increased to two maunds. Every agriculturist and many other producers are being defrauded of a large portion of the sweat of their brow by the use of a false money measure. And so long as Government remains a silent and helpless accessory to this transparent swindle, I see no hope for the toiling millions of India.

"We must have more rupees in use—partly by de-rating but chiefly by reopening India's Mints—so as to restore prices to their level of five years ago, or we perish.

"A few weeks ago, Professor Gilbert Murray, lecturing before the Historical Society at King's College, London, measured up our modern civilisation in comparison with the great civilisations of the past, and found us wanting. He accused us of 'bristling with fashionable superstitions' (that includes the 1*s*. 6*d*. rupee !), yet 'haunted by depression.'

"I am not a sufficiently learned historian to venture to judge whether Professor Gilbert Murray is right or wrong.

"But I do say this that there is something very wrong with the British Government, and the British people, if they tolerate any longer the use of a British Monetary measure which forces the agriculturist and producer to give up nearly twice their fair share of the products of their labour in payment of land revenue, taxes, and other fixed charges. No wonder we are heading for ruin !

"My final words therefore are to congratulate the Currency League on its good work already done. Keep of good cheer and press forward your demand for an immediate de-rating of the rupee. And I urge you to couple with it the reopening of the Indian Mints to the free coinage of Silver in conjunction and co-operation with the United States of America."

Note.—Sir Montagu Webb also addressed a large meeting of students, professors, and others at the Sydenham College of Commerce, Bombay, on the 24th January, 1934. His lecture followed much the same lines as that delivered in Calcutta on the 18th January, 1934, at the Indian Economic Institute, see Appendix E.

APPENDIX H

KARACHI—"*Why Silver?*"

At the invitation of the Karachi Branch of the Currency League of India (the first object of which is to study monetary questions in order that a currency policy best suited to the interests of India may be evolved), Sir M. de P. Webb, C.I.E., C.B.E., addressed the Branch on the 7th March, 1934, *explaining why he now advocated the reopening of the Indian Mints, in co-operation with the Mints of the U.S.A., to the free coinage of silver. The address, rewritten and enlarged, is given below:*

"During the last twenty years, the money of the world has undergone terrible distortions of an unprecedented character which have already resulted in the ruin of many millions of people; and now threaten to wreck whole continents, and to disintegrate completely our twentieth-century civilisation.

"The first distortion was the inevitable product of the World War of 1914–18. Money being man's chief Purchasing Tool, all belligerents thought it necessary to create and use greatly increased volumes of money-tools in order to procure in the shortest possible time the services, machinery, munitions, food and supplies for those directly and indirectly engaged in the fighting. These creations of additional money-tools were *paper* tools, issued partly by the State, and partly by private concerns, i.e. the banks.

"As in the case of all other things in the world, the value (or purchasing power) of money diminishes or increases according as supply is greater or less, than the demand. The consequence of the addition of enormous volumes of new money-tools to the volume of money already in use in August 1914, when Germany invaded Belgium and so commenced the Great War, was to lessen the value of *all* money in the world—not merely of the new paper money, but also of the old paper money, and of all the gold and silver money then in use. This *diminution* in the value or purchasing power of money was seen in the steady rise of prices. Everything rapidly became dearer and dearer. If the general level of the wholesale prices of a group of representative commodities in 1913, or in the first half of 1914, be represented by the figure 100, then, by the year 1920, this Index Number had risen in England, India, and elsewhere as under:

	In 1913–14.	In 1920.
United Kingdom	100	295
United States	100	197
India	100	202

This unprecedented shrinkage in the value or purchasing power of British and American money created endless complications. For the reason that money has other functions than acting as a Purchasing Instrument. As universally recognised, Money also serves as

(2) A Public Measure of Value;
(3) A Store of Wealth; and
(4) A Standard of Deferred Payments.

And when the value or purchasing power of money shrunk, as it did in England to almost one-third of its 1913–14 value, the measuring capacity also shrunk (the yard became twelve inches, as it were): two-thirds of the 'Store of Wealth' disappeared: and those who owed money—including companies, public bodies, and Governments—paid interest, and repaid loans *in money that was only one-half to one-third as useful as contemplated when the original borrowing took place.* And all because of the distortion of the 'Standard of Deferred Payments.'

"In the case of pensioners and annuitants this injustice has never been rectified. But in the cases of wage and salary earners, some compensation was given at the time in the form of allowances, or of increased wages and salaries. This was unavoidable owing to the greatly increased cost of living; for not only had the cost of food and clothing risen, but house rents and all other rents and fixed charges had also increased. In short, all-round adjustments were gradually carried out so as to allow for the greatly diminished value or purchasing power of the several countries' money. A further compensating factor was the powerful stimulus to production, industry, and commerce given by the long-continued upward movement of prices. Everybody earned more, and made greater profits, than had been at first anticipated. Companies paid larger dividends, and prospects seemed everywhere to grow brighter—facts which compensated many fixed wage and salary earners for the admitted deterioration of their position.

"These were the chief aspects of the first great distortion of India, America and Great Britain's money-tools that took place in the years 1914 to 1920.

* * * * *

"Then came the second and most disastrous period—1920 to the present day. During this period, and specially after the year 1929, a reverse distortion, if it may be thus described, has taken place—a distortion of so rapid and severe a character that enterprise has everywhere been numbed, international commerce paralysed, and individuals, private concerns, public bodies, Provincial and Central Governments all brought to the verge of bankruptcy. Here and there we see a Government

congratulating itself on being able to produce a balanced budget. Such a situation, however, is only possible by the imposition on the shrinking earnings of the public of a burden of taxation of a truly killing character.

" This 'reverse distortion,' or rapid *increase* in the value, or purchasing power of money, has been evidenced by an alarming *fall* in the general level of prices, especially since 1929. Taking the figure 100, as before, to represent the general level of wholesale prices in 1913–14, the following Index Numbers give a fairly accurate idea of what has happened.

	In 1920.	In 1929.	In 1933.
India	202	141	87
United Kingdom . .	295	135	94
United States . .	197	136	94

These figures reveal the most disastrous fall of prices ever known, over 54 per cent between the years 1920 and 1929; a further 30 per cent from 1929 to date; or over 68 per cent on the whole in the United Kingdom. In India the fall since 1920 has been approximately 57 per cent, of which over 38 per cent has occurred since 1929.

" This 1920–33 distortion of our money-tools has meant that money has not only recovered the loss of value (or of purchasing power) which huge issues during the War had caused, but it is to-day actually *more valuable* (*15 per cent more valuable in India*) *than it was twenty years* ago before the War!

" It may be thought by some that this 'reverse distortion' which was deliberately initiated by the money powers of London on the recommendation of a Committee of London bankers (the Cunliffe Committee of 1918–19) has been of an 'as-you-were' character; and that there is, therefore, nothing to criticise, or complain about. This might be so (*a*) if there had been no adjustment *upwards* of wages, salaries, rents, and other fixed charges before 1920; and (*b*) if all outstanding debts—personal, public, local, provincial and national—had been incurred *before* 1914.

" But neither of these 'ifs' is true. Wages and fixed charges *were* all adjusted upwards before 1920 to the higher levels of prices then current, and cannot be knocked down now to 1913–14 levels without the risk of civil war, bloodshed, and revolution.

" So, too, most of the outstanding indebtedness in the world to-day was incurred at a time when Money was not nearly so valuable (in purchasing power) as it is to-day. To repay creditors with present-day money of over pre-War value is to make them a present of far more than is fairly due to them, and is cruelly unfair to all debtors.

* * * * *

"So it follows that money's present-day scarcity value (purchasing power) *must* be brought down, or, in other words, PRICES MUST BE RAISED, by 30 to 50 per cent, to save the world from impending bankruptcy.

"With this conclusion every first-class authority in every great country agrees. The only matter that now remains to be decided and put into operation is—What is the safest and most effective way of correcting the money distortion of the last few years and of bringing about a reliable and prolonged rise of prices. And it is here that I reply—By reopening the Indian Mints to the public in co-operation with the United States of America (and any other country who cares to join) to the free, unrestricted coinage of silver.

* * * * *

"But why silver? many people ask. Is not gold good enough? Or paper money based on gold? Or national paper currency based on the credit of the Nation which issues it? Why bring in silver?

"The answers are obvious. Firstly, we must have money. Man is a tool-using animal, and his great Purchasing Tool is a legally established instrument called Money. Without money there could be no division of labour, and therefore no civilisation as we see it to-day. Money is therefore one of the most important Tools in the world. Indeed, together with writing, it may be ranked among the greatest inventions of the human brain.

"From time immemorial to the present day, money-tools have been manufactured of silver and of gold (as well as of other things, notably paper). Abraham, it will be remembered, bought from Ephron a field in which to bury his dead, for 'four hundred shekels of silver, *current money with the merchant*' (my italics),—vide Genesis xxiii, verse 16. And Great Britain recently made a 'token' payment of war-debt interest to the U.S.A. in silver—now current money among the people of the United States.

"If all mankind consisted of perfect beings, actuated by pure reason, always fair minded, never distrustful of each other, and never inclined to be greedy, quarrelsome, or liable to fight with each other, and if all Governments were also similarly perfect, clearly there would be no need to manufacture the country's Purchasing Tools of such expensive metals as silver and gold. Paper would serve equally well—State paper currency, supplemented by private paper currency in the form of bills and cheques.

"But very few human beings, and no Governments have yet attained these moral altitudes; and so, in practice, throughout the ages and at the present time, the peoples of the world have found it expedient to use silver and gold monetary tools. The Government of India to-day, for example, hold *silver* to the

extent of approximately Rs. 97,80,00,000 (£73,000,000) and *gold* valued at over £34,000,000 in case distrust by the Indian people, or by the English people, or by the British Government should necessitate India's Government making payments in metallic money.

"So, too, the Bank of England to-day holds *Silver* coin worth £3,500,000 and *Gold* coin and bullion to the value of about £192,000,000 in case the home public, or foreign countries should demand metallic money, or should lose confidence in Britain's people, or in the British Government.

"As for France, and the United States of America, so great is the distrust of the peoples of those countries of conditions in their own countries—of their Governments, and of their neighbours—and of the world at large, that their Governments each of them hold in reserve gold to the value of approximately £1,000,000,000. That £2,000,000,000 worth of gold, be it noted, represents nearly four-fifths of the whole of the available monetary gold in the world!

* * * * *

"Some of the questions propounded on the previous page can now be answered. Is not gold good enough? Certainly gold is *good* enough. But, unfortunately, universal distrust and loss of confidence has resulted in two great nations acquiring and, in effect, sterilising, so far as its monetary functions are concerned, most of the gold in the world. So gold, though quite 'good' in many peoples' belief, is not available in anything like sufficient quantity, nor can it be utilised (except in huge purchases of foreign goods—most improbable—by France and the United States themselves) to raise the general level of prices throughout the world.

"As for paper money based on gold, or partly on gold, such money it must be remembered is of two kinds—that issued by Government (as in India), or on the authority of Government (as in Great Britain—Bank of England notes), and that issued solely by private concerns, namely the various banks throughout the world—generally called bank credits, and ordinarily brought into operation by means of cheques and bills. Both kinds of paper money are acceptable, and therefore effective as Money Tools, not so much because of the volume of gold kept in reserve against the paper money for emergencies by the various Governments and banks, as *because of the esteem or credit which Governments and the banks enjoy in the minds of the great masses of the people.*

"Would that credit continue unimpaired if one of the leading Governments in the world, say, the British Government, announced to-morrow that, with the object of correcting the recent grave distortion in the purchasing and other functions of money

(with the object, in other words, of producing that long-continued rise of prices throughout the British Empire and the rest of the world *which is the very essence of all British Experts and Statesmen's monetary policy*, announced, confirmed, and repeated many times since the Macmillan Committee of 1931 first put it forward),[1] taxation would be reduced by 25 per cent, and Government would, till further notice, pay its way by issues of One Pound Treasury Notes similar to those employed in Britain and elsewhere during the Great War?

"There can be no doubt about the answer. Although such a step would be far better in the general interest than the present practice of borrowing £1,000,000,000 from the 'City' on short term IOU's *on which the British taxpayer has to pay interest*, such a policy would be received with indignant protests by the 'City' (who are not at all averse to Government living thus from hand to mouth—a convenient and profitable arrangement for the big money-lenders of London), and with alarm and distrust, possibly amounting to panic, by the financiers of Europe and the millions of small investors all over the world whom those financiers and their organisations influence. Already the fact that the Bank of England is no longer obliged by law to hand out gold in exchange for its own Notes *promising to pay 'pounds' to bearer* (although gold is still freely exported from, and imported into, the United Kingdom) has resulted in international money-changers declining to pay more than about 62 per cent of a British *gold* pound (or 12*s.* 5*d.*, gold) for a British *paper* pound. This 38 per cent fall in the exchange value of the British pound 'sterling' is a warning to all who are inclined to put their trust in even the best Paper Currency, i.e. British Paper Currency which is backed *by both gold, and the credit of the British Government and Empire.* If such a currency can lose nearly a third of its international exchange value in a single night (as it actually did), how can the nations of the world be expected to build their futures on such a foundation, in preference to a foundation of silver—a metal whose value relative to commodities has not varied nearly so much in the last few years as gold, and whose popularity extends in practice from China to Peru among hundreds of millions of people?

"The addition of large volumes of paper money created by and issued from *private* sources (i.e. bank credits made effective through the agencies of bills and cheques) only remains to be considered. This is the first source that the U.S.A. Government proposed to tap nearly three years ago, in order to give scope to the operation of a large volume of new purchasing power which, it was hoped, would turn the tide of falling prices, and

[1] Part II, Section II, sub-section 1, *The Immediate Necessity to Raise Prices above their Present Level*, p. 114.

start that upward movement which was essential to save the world from disaster.

"'Cheap credit' was the remedy on every politician's tongue in those days. At the Imperial Economic Conference at Ottawa in July 1932, the British Government butted in with a 'cheap-credit' prescription worded as follows: 'An ample supply of short-term money at low rates may have a valuable influence' (in raising wholesale prices).[1] That is what many people thought at the time. But those people were wrong. In spite of all offers of cheap credit (loans have never been cheaper: indeed, capital has gone abegging), prices have fallen as under:

INDEX NUMBERS OF WHOLESALE PRICES.

Year.	U.K.	U.S.A.	India.
1930	114	124	116
1931	96	105	96
1932	94	93	91
1933	93	94	87

Notwithstanding the patent failure over a period of three years, of the Official British Policy of Cheap Bank Credits as a means of inducing a rise of prices, Mr. Neville Chamberlain, on behalf of the British Government, nevertheless put forward the same discredited policy for the consideration of the ill-starred World Monetary and Economic Conference of last year! That Conference, when face to face with a proposal so obviously inadequate to meet the crisis, quickly dissolved in failure, on 27th July, 1933.

"So the answers to the question,—Why Silver?—may be summarised as follows:

"(*a*) Because Gold for use as money is no longer available throughout the world in sufficient quantities to raise price-levels.

"(*b*) Because *State* Paper Currency (backed by gold, silver, and the credit of the State) has not so far been used by Great Britain, India, and the Empire in a way that would restore world prices to their 1929 levels, owing to the successful opposition of the money-lending interests of London which a democratically-elected Government (always heavily in debt) fears to challenge.

"(*c*) Because *private* Paper Currency (mostly created by the banks, large and small, national and private) is lent only to credit-worthy borrowers *on payment of interest*. The great mass of the public have but very little credit in the eyes of money-lenders; and those borrowers who are already heavily indebted to banks and finance houses, do not want to borrow further; nor are bankers inclined

[1] Cmd. 4174, *Summary of Proceedings*, at the Imperial Economic Conference at Ottawa, p. 12, etc.

to encourage such debtors to become still more deeply involved in debt. No man of practical commercial experience is surprised therefore that British politicians' repeated appeals to bankers to give still more 'cheap credit' has wholly failed to raise world prices.

"And so, more than three years have elapsed without Great Britain's 'National Government' being able to rectify the gross distortion that has taken place since 1929 in the purchasing, measuring and other functions of Great Britain's money-instruments. As this distortion has been of a very malignant character (a rapid, steep, and continuous fall in the level of wholesale prices) that has numbed enterprise, paralysed trade, reduced profits, multiplied unemployment, produced endless fungus growths of tariffs, quotas, restrictions and prohibitions, and brought many to the neighbourhood of bankruptcy, it might be thought that the application of an effective remedy would be the first matter to engage the urgent attention of Great Britain's political leaders. Instead of which, a multiplicity of irritating insular prohibitions and fiscal alleviations of very questionable soundness and, at the best, of only temporary benefit, have been introduced. This deplorable neglect of the chief source of disease has been reproduced in India (mainly an agricultural country), which has been reduced to a distressful condition with all agricultural and other indebtedness doubled, all new developments dammed, and all private concerns, local bodies, Central and Provincial Governments dragged down to the neighbourhood of bankruptcy. The political boycotts of recent years have gained strength mainly from the grave economic distress arising from collapsing prices, rather than from any genuine pains of political discontent. Indeed, had Government boldly restored the distorted rupee to its measuring capacity of five years ago, the world would probably have heard very much less about Indian political discontent. Where is the sense of administering the maintenance of the standards of length, weight, and capacity with the utmost precision and fairness, *if the chief measure of all that is employed almost every minute of the day in almost every transaction of life—the Public Measure of Value—is allowed to be enlarged to twice its capacity without Government stirring a hand to protect those who are everywhere being cheated?*

* * * * *

"Suppose for a moment that those who are calling for 'silver to the rescue,' had their way, and that the world's Mints were suddenly reopened to the public to the free coinage of full-legal-tender silver money. What would happen? Would India and the Empire benefit? Would the world benefit? Or should we all be deluged by an influx of silver that would lift world prices

out of most people's reach, and reduce the whole of the world's money to the value of a pre-war *mark* or *rouble*?

"Most of the new silver produced in recent years has come from Mexico (86,000,000 ounces in 1931), and the United States (31,000,000 ounces). Canada, Australia, and Peru have also contributed (about 35,000,000 ounces altogether); whilst India, Bolivia, Dutch East Indies, Germany, Japan, Spain and South Africa have each yielded from 6,000,000 down to 1,000,000 ounces; all in 1931. Were silver everywhere remonetised, many producers of silver outside the British Empire would benefit. This would certainly be to the general good. In this connection, we must detach ourselves from the delusive sentiment of economic nationalism now so very prevalent, and recognise that, though by special measures, certain industries in certain localities can be momentarily stimulated, the progress of the nations as a whole, and in the long run, must assuredly be retarded; and a tendency to stagnation, retrogression and dangerous apprehension be produced if the efforts of each country to make itself entirely self-contained be continued. The truth is that each country benefits by the prosperity of its neighbours; and that wealthy and highly developed neighbours invariably radiate their wealth and culture in all directions.

"The immediate effects, then, of the reopening of the world's Mints to the unrestricted coinage of full-legal-tender silver money would be that

"(1) Silver production would become more profitable; a great stimulus to increased output would arise; and larger number of miners would be employed—would earn more wages—and so would be able to *employ more purchasing power, and consume more commodities*.

"(2) The purchasing powers of all interested in silver mining, and in lead, copper, and zinc mining—not only the higher staffs on the spot, but shareholders all over the world, and 'their sisters, their cousins, and their aunts'—would all be materially increased, to the very great advantage of all countries.

"(3) The basis of credit would immediately be enlarged on all sides, with an effect on the world's purchasing powers analogous to that produced in the past by the great discoveries of gold in California, Australia, South Africa, and elsewhere.

"(4) The value of the huge hoards and stocks of silver now held in India, China, New York, London and other places would be substantially enhanced; and with it the credit, well-being and purchasing capacities of probably the greater part of the population of the globe.

"This certainly seems to foreshadow a deluge of silver that,

however beneficial to Mexico and the United States, might so depreciate the value of money in Europe and Asia as to cause an even greater 'reverse distortion' of monetary value than that from which the world is at present suffering.

"It will be necessary therefore to recall the words of Earl Stanhope in the House of Lords on the 7th December, 1932. Lord Hunsdon had drawn the attention of Government to the desirability of considering at the (then) forthcoming World Economic Conference of July 1933 a gradual return to the bi-metallic monetary system which had existed in the world up to 1873. Earl Stanhope, on behalf of Government, replied, in effect, that as the world's existing total stock of metallic (gold) money was estimated at £2,500,000,000, the addition every year to that stock of a mere £20,000,000 worth of silver (i.e. 200,000,000 ounces at 2*s*. per ounce) would make 'very little difference' to the world's monetary situation.

"The cautious student, however, will not be satisfied with this expression of official opinion. It is true that the world's annual output of silver has fallen to under 200,000,000 fine ounces in 1931: but may not this fall be the result of the drop in recent years in the gold price of silver? Would not a rise of price to say 30*d*. or 40*d*. per ounce result in an overwhelming expansion of production? A few figures may help to answer this question.

"The following table gives the average price of silver and the total world production since the beginning of this century:

Year.	Price per oz. (average).	World's Output. fine ounces.
1901	$27\frac{3}{16}d.$	173,000,000
1905	$27\frac{13}{16}d.$	172,000,000
1910	$24\frac{21}{32}d.$	221,000,000
1915	$23\frac{5}{8}d.$	189,000,000
1920	$61\frac{13}{32}d.$	173,000,000

Between 1915 and 1920, the price rose from $23\frac{5}{8}d.$ to 31*d*., 40*d*., 47*d*., 57*d*., and $61\frac{13}{32}d.$, average. The highest price realised was $89\frac{1}{2}d.$, in 1920. Thereafter the price steadily dropped till the lowest point, 12*d*. per ounce, was reached in 1931, the average for that year being $14\frac{19}{32}d.$ The effect on the world's production of the rise of price between 1915 and 1929 can be seen below.

Year.	Mill. oz.	Year.	Mill. oz.	Year.	Mill. oz.
1915	189	1920	173	1925	245
1916	175	1921	172	1926	254
1917	180	1922	210	1927	251
1918	203	1923	246	1928	258
1919	180	1924	240	1929	261

Output steadily increased till 1929. Thereafter, world production quickly dropped till, in 1931, the latest date for which reliable

figures are available, the total stood at 192,709,971 fine ounces (U.S.A. Mint Report for 1932).

"It is quite clear that a price-level of 30*d.*, or 40*d.*, or even higher, produced no 'flood' of silver in the past. And the reason for this is not difficult to detect. Silver is now obtained principally as a by-product of lead, copper and zinc. Assuming that every ton of new lead and copper mined yields on an average 61 ounces of silver, we arrive at the conclusion that 80 per cent of the world's output of silver to-day is derived from base metal mines and only 20 per cent from 'dry ores,' i.e. from silver, and silver-gold mines. These percentages have varied in the past as much as 55 per cent from base metals, and 45 per cent from 'dry ores.' The following figures, based upon data from the American Bureau of Metal Statistics, are very illuminating. They represent the world's silver production *per annum* in millions of ounces, the percentages and quantities derived from 'dry ores,' and the average price per ounce:

Three years Periods.	Average Price. *d.*	World Output Mill. of Ounces.	From Dry Ores. per cent.	From Lead, etc. Mines. per cent.
1912–14	27	212	40	60
1915–17	32	186	32	68
1918–20	55	186	35	68
1921–23	35	207	45	55
1924–26	32	244	26	74
1927–29	26	256	19	81
1930–31	16	220	20	80

"These figures prove that at 27*d.* per ounce and under, silver production from 'dry ores' fell off. At 55*d.* per ounce (the average for 1918–20), world production increased by 21,000,000 ounces per annum in 1921–23, *the whole of which came from 'dry ores.'* At 35*d.* per ounce it will be noticed that the output of the 'dry-ore' mines once more fell off.

"The broad conclusions that can be drawn from the above figures are:

"(1) The production of silver from lead, copper, and zinc mines is very largely uninfluenced by the world prices of silver;

"(2) The production of silver from silver and silver-gold mines even at 55*d.* per ounce and over, did not in the last twenty years exceed an extra 28,000,000 ounces per annum (all from the 'dry-ore' mines);

"(3) That a price of 39 or 40 pence per ounce is not in the least likely to produce a dangerous 'flood' of silver from either 'dry-ore' or base-metal mines.

"It may here be noted that even if the world's annual pro-

duction of new silver were doubled, a quite impossible figure—the new money put into the hands of the peoples of the world would be *less than one-twentieth of the value of the gold withdrawn during the last few years.*

"There are of course, in addition to supplies of new silver, large stocks of old silver to be taken into account. There may be over a 1,000,000,000 ounces of old silver available to-day in India. There may be nearly 200,000,000 ounces lying in Shanghai at this moment. The rapid rise in the value of this silver would be of the greatest advantage to the masses of India and China who, by the short-sighted legislation of Western Governments, have been unjustly deprived of more than a half of their invested wealth. It would be a great advantage, too, to the rest of the world. It need not be imagined that all this old silver would be rushed into the American and the Indian Mints. A small portion might. The practical result would be a great increase of purchasing power in the hands of 700,000,000 of Eastern peoples. The use of that purchasing power would quickly lift to-day's economic depression.

* * * * *

"Enough. The question—Why Silver ?—can now be finally and completely answered.

"Because all efforts so far made, with gold, with State paper currency, and with private bank credits, to rectify the recent deadly distortion of the purchasing, measuring, and other functions of the State's Money (in other words to set in motion a certain, reliable, and prolonged rise in the general level of world prices), have ignominiously failed; and have left both peoples and nations in a state of appalling indebtedness which is not only manifestly unjust but which cannot possibly be repaid in full, and must therefore end in widespread insolvency—and, for these reasons, must jeopardise social, economic, and political relationships and endanger the whole edifice of our modern civilisation.

"The East, with its teeming hundreds of millions of peaceable and industrious workers, has used silver money tools from time immemorial. There is not the slightest practical difficulty in rehabilitating silver there. The West—north and south America—is quite familiar with, and quite ready (with the exception of a powerful group of New York bankers), to rehabilitate silver as full-legal-tender money. Many in North America prefer paper currency; so much of the silver would be used in dollars or bars as a backing to the huge volumes of 'bills' now current.

"But the strongest reason of all for rehabilitating silver is that it would generate throughout the world, *outside perhaps Lombard Street,* a wave of optimism that would quickly sweep all

before it. No longer would the bankers of London, Paris, and New York, be able to weigh and decide the conditions, the extent, and the pace, at which economic developments in every corner of the globe should proceed (which is often the case now, to my personal knowledge). San Francisco, Melbourne, Ballarat, Bendigo, Johannesburg, Coolgardie, and a dozen other mining cities grew without any Western bankers' permission. And what the world wants to see to-day is a repetition of the enthusiasm and enterprise which characterised the 'fifties, and 'sixties, and the 'nineties of the last century, and the first decade of the present century. Such enterprise will certainly never appear in our lifetime as the result of more borrowing on 'easy terms' from centralised banking institutions in London or Paris by a public already crushed under an unbearable burden of long- and short-term indebtedness. Silver must once again play the part that it did in the sixteenth century when the products of the mines of Mexico and Peru revived the spirits and activities of a sluggish, moribund Europe. Madness such as we have recently seen in India—(*a*) frequent sales by Government of India's supposed 'surplus' silver currency at *a time when prices are lower in India than anywhere else: and taxation is so heavy that trade is being killed,* and (*b*) the rushing through the Legislature by Government of a Central Reserve Bank Act designed *inter alia* to substitute a 'sterling' *paper currency,* managed in London, for India's solid silver rupee, and that, too, in India—*the chief silver using country in the world!*—such economic insanity must now be recognised as such, and remedial measures applied as quickly as possible.

"We must join with the U.S.A. in rehabilitating Silver as Money because there is no other way of creating *world* confidence and optimism. America, with India, can yet save the world from bankruptcy. Increased demands and greater consumption by the hundreds of millions of vigorous and enterprising peoples away out East and West, expressed by the aid of Silver (in addition to paper and gold). Money Tools are the only hope of arresting the further economic disintegration of Europe."

POSTSCRIPT

Many people are under the impression that a greatly increased output of silver in the last and this century explains the terrible fall in the gold price of the white metal. The following figures prove that this is not so. The figures represent the *percentages* of the relative production in ounces of silver and gold during the last century; and also the ratio which the silver produced bore to the gold unearthed:

Years.	Silver.	Gold.	Ratio.
1801–10 . . .	98·1	1·9	52 to 1
1811–20 . . .	97·9	2·1	47 to 1
1821–30 . . .	97·0	3·0	32 to 1
1831–40 . . .	96·7	3·3	29 to 1
1841–50 . . .	93·4	6·6	14 to 1

Note the figures of the ratios very carefully. It is a striking fact that notwithstanding the great variations in the *quantity* of silver produced during the *first* half of last century relative to the quantity of gold unearthed, the prices remained steady between 58¾*d.* and 61½*d.* per ounce, i.e. at a ratio of approximately 15½ silver to 1 gold; the reason being that the French Mints were open to the free coinage of silver and gold at that ratio.

Years.	Silver.	Gold.	Ratio.
1851–60 . . .	81·7	18·3	4 to 1
1861–70 . . .	86·5	13·5	6 to 1
1871–80 . . .	92·6	7·4	13 to 1
1881–90 . . .	95·1	4·9	19 to 1
1891–00 . . .	94·1	5·9	16 to 1
1901–10 . . .	90·9	9·1	10 to 1
1911–20 . . .	90·4	9·6	9 to 1
1921–30 . . .	92·7	7·3	13 to 1
1931	89·4	10·6	8 to 1

Now note the ratios of production for the next fifty years—1851 to 1900. Although the ratio of the volume of silver produced to that of gold unearthed fell considerably, yet the gold price of silver, instead of rising, actually fell from 61*d.* per ounce in 1851 to 29*d.* per ounce in 1900!

The real reason of this fall in the gold price of silver was the demonetisation of silver by Germany in 1873, followed by the

closing of the French Mints to the free coinage of silver. This demonetisation of silver was later copied by Holland, Belgium, Sweden, Norway, Denmark, the United States of America, and to our discredit be it said, India, in 1893. The immediate effects of this artificial legislative ban on a perfectly good monetary metal was to send UP the value of gold, and send DOWN the gold price of silver. Here are the figures:

Years.	Index Numbers of wholesale Commodity Prices.	Silver Price per fine ounce.
1870	100	$60\frac{9}{16}d.$
1880	88	$52\frac{1}{2}d.$
1890	72	$47\frac{3}{4}d.$
1900	68	$28\frac{5}{16}d.$

Gold, it will be seen, was *far more valuable* in 1900 than it was in 1870, not only with regard to silver *but also with regard to all commodities*. Silver, it is true, lost a little in value relatively to commodities; but this was clearly caused, not by excessive production (the gold and silver production ratios conclusively prove that) but by the anti-silver legislation which artificially restricted its use for monetary purposes.

This legislation, so far as India was concerned, seriously lowered the value of the immense silver savings of India's millions, and so did the peoples of India a grave injustice.

The fact that the annual production of silver to-day is only about eight times that of gold *in quantity*, whilst the (gold) price is about *one-eightieth* of that of *gold in price*, shows how grievously silver is now under-valued chiefly owing to hostile legislation and noxious executive action by certain authorities, of whom the Government of India is among the chief offenders.

M. DE P. W.